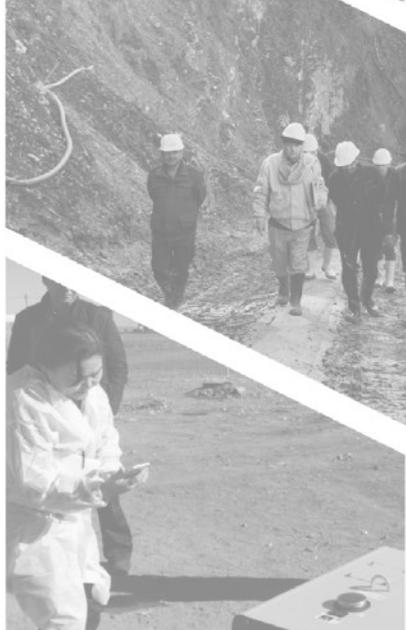




PROACTIVE INTEGRITY REVIEWS

A PREVENTIVE MECHANISM
AGAINST CORRUPTION







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Notes:

In this publication, “\$” refers to United States dollars.

On the cover: Proactive integrity reviews (PIRs) in action, including checks in procurement, contract and asset management, and financial management (photos by PIR team).

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Abbreviations

ADB	Asian Development Bank
BEC	bid evaluation committee
BER	bid evaluation report
BOQ	bill of quantity
CDC2	Second Greater Mekong Subregion Regional Communicable Diseases Control Project
CEO	chief executive officer
COA	Commission on Audit
CSC	consultant selection committee
DFO	Divisional Forestry Office
DMC	developing member country
DRILP	Decentralized Rural Infrastructure and Livelihood Project
GACAP	Governance and Anticorruption Plan
IFI	international financial institution
IRMR	integrity risk management review
MLD	Ministry of Local Development
MOE	Ministry of Education
NDF	Nordic Development Fund
NRM	ADB Nepal Resident Mission
OAI	ADB Office of Anticorruption and Integrity
PIR	proactive integrity review
PMU	project management unit
SAI	supreme audit institution
SARD	ADB South Asia Department
SEMP II	Secondary Education Modernization Project II
SLRM	ADB Sri Lanka Resident Mission

Developing Member Countries That Benefited from Proactive Integrity Reviews

77 Number of Proactive Integrity Reviews

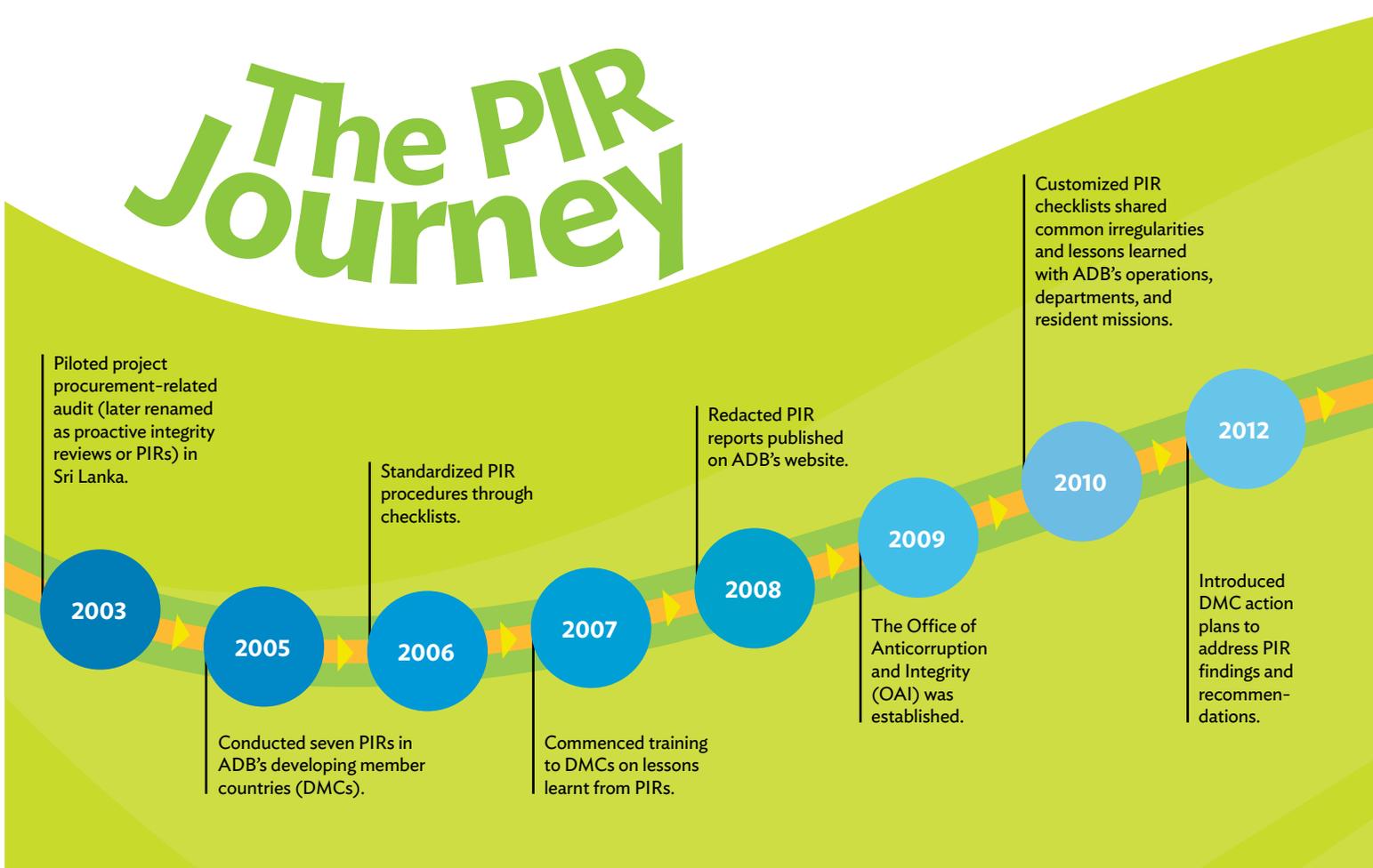
14 Number of Follow-up Reviews

CENTRAL AND WEST ASIA		
Afghanistan	●●	
Armenia	●●	
Azerbaijan	●	
Georgia	●	●
Kazakhstan	●●	
Kyrgyz Republic	●●	
Pakistan	●●	●
Tajikistan	●	
Uzbekistan	●●●	
EAST ASIA		
Mongolia	●●●●●●●	●
People's Republic of China	●●●	

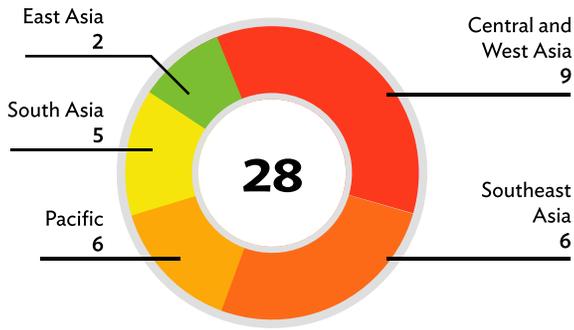
PACIFIC		
Fiji	●	
Palau	●	
Papua New Guinea	●●●●	●●
Samoa	●	●
Timor-Leste	●	●
Tuvalu	●	
SOUTH ASIA		
Bangladesh	●●●●	
Bhutan	●●	
India	●●●	●
Nepal	●●●●●	
Sri Lanka	●●●●	●
SOUTHEAST ASIA		
Cambodia	●●●●	●
Indonesia	●●●●	●
Lao PDR	●●●	
Myanmar	●●●	
Philippines	●●●●●	●
Viet Nam	●●●●●	●●

Statistics in this infographic are from 1 January 2003 to 31 December 2020

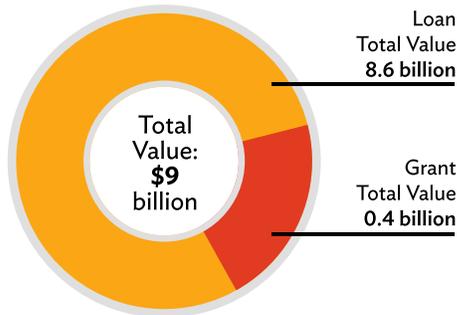
The PIR Journey



Developing Member Countries



Contracts Reviewed



PIR Coverage Per Sector



Wider adoption of PIR methodology as an effective anticorruption tool in development projects was recognized at the annual Conference of International Investigators of United Nations Organizations and Multilateral Financial Institutions.

ADB's instructions and processes were amended to embed PIR lessons during project design.

Developed asset inspection toolkit for DMCs and ADB operations departments.

A total of 233 IRMRs have been conducted since 2016.

2013

2014

PIR was recognized as an effective anticorruption tool in ADB's Second Governance and Anticorruption Plan (GACAP II).

2015

2016

Started integrity risk management reviews (IRMR) to incorporate PIR lessons in 33 ADB-financed projects.

2017

2018

PIR lessons identified as key information resource in country, sector, and agency procurement assessments.

2019

2020

Ninety-one PIRs, including 14 follow-up reviews have been conducted. These cover 28 DMCs across 6 sectors. OAI initiated special proactive integrity reviews for COVID-19-related projects. A total of 416 IRMRs have been conducted since 2016.

Executive Summary

What is the Cost of Corruption?

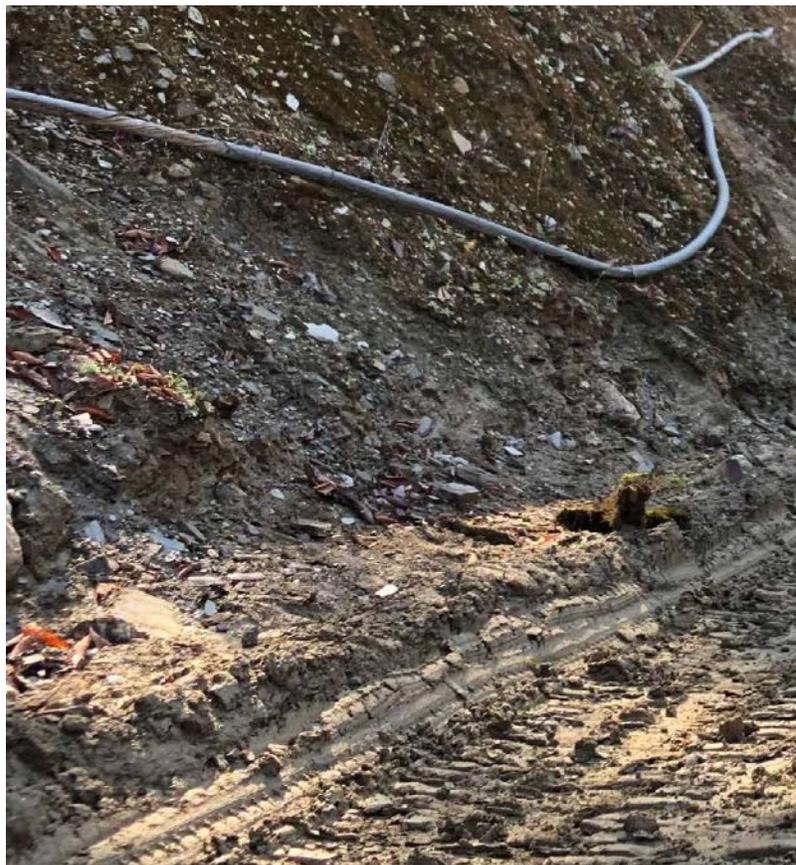
More than 264 million people live in extreme poverty in Asia and the Pacific. In developing countries, substantial resources are lost to corruption in infrastructure projects reaching up to \$18 billion a year.¹ Losses from corruption have profound consequences on the lives of people in Asia and the Pacific, including poor public services, weak institutional capacity, and governance issues. Without robust fraud and anticorruption measures in place, development funds are vulnerable to mismanagement and abuse.

In a region where 80% of the population is coping with widening inequality, the need to prevent corruption is as urgent as ever.² The Asian Development Bank (ADB) helps the region promote integrity and fight corruption through ADB-financed and -administered projects.

How does ADB Combat Corruption?

Since the approval of ADB's Anticorruption Policy in 1998, fighting corruption has become part of ADB's broader work on issues of governance, public administration, and capacity development.³ The Anticorruption Policy affirms the bank's zero tolerance for corruption and sets the ground for supporting anticorruption efforts.

ADB's Strategy 2030 further upholds good governance as one of seven operational priorities for a prosperous, inclusive, resilient, and sustainable Asia and the Pacific.



The Office of Anticorruption and Integrity (OAI) promotes the implementation of this operational priority through a combination of activities aimed at (i) prevention and compliance, and (ii) enforcement. The proactive integrity review (PIR) is a mechanism used by ADB to root out areas of vulnerability, noncompliance, and integrity risks in ADB-financed or -administered projects. In 2003, ADB was one of the first multilateral development banks to pioneer the mechanism as part of project monitoring.

Purpose of this Publication

To maximize and expand the reach of knowledge and experience drawn from its PIRs, OAI prepared this document to help executing agencies, implementing agencies, and project administrators identify and mitigate integrity risks and better implement ADB projects. While this publication

¹ C. Kenny. 2009. Measuring Corruption in Infrastructure: Evidence from Transition and Developing Countries. *The Journal of Development Studies*. 45 (3). pp. 314–332.

² ADB. 2019. [Strategy 2030 Operational Plan for Priority 6 – Strengthening Governance and Institutional Capacity, 2019–2024](#).

³ ADB. 1998. [Anticorruption Policy](#).



Joint site inspection. The contractors, supervision consultants, and proactive integrity review (PIR) team jointly inspect the project site of an energy project in Bhutan in 2019 (photo by PIR team).

was developed within the context of ADB projects, other organizations and individuals involved in corruption mitigation may also find the integrity lessons useful.

This publication is structured as follows:

Section 1 introduces proactive integrity review (PIR) as part of ADB’s institutional tools to combat corruption.

This section lays out the process for and the components of a successful PIR. The journey of the PIR shows that effective interventions often lead to higher returns. Working to enact substantive institutional change is a time- and labor-intensive endeavor, and these earlier efforts laid the baseline capacity for well-designed and rigorous interventions that ADB supports. The history of PIRs is presented in a centerfold.

Section 2 highlights the PIR impact on ADB’s projects and experience of stakeholders.

Case studies from different project stakeholders on their PIR experience are presented in this section. This section provides the key ADB documents and knowledge products that build in PIR expertise and experience in integrity risk prevention. These will help executing agencies, implementing agencies, and project administrators strengthen risk identification and mitigation at project preparation, and better manage and implement ADB projects.

Section 3 introduces fraud schemes and provides tools to help project teams mitigate integrity risks in procurement, contract and asset management, and financial management.

Gleaned for future reference are cross-cutting lessons on the effective application of preventive and mitigating tools at the project level. This section draws out essential integrity solutions to enable project staff to spot red flags of fraud and corruption and ringfence projects from improper use of development funds.

Section 4 takes a peek into the PIR future and calls to action. Corruption affects us one way or another as a member of society, and we all play an important role in shaping our future.

How can funding agencies and recipients of development assistance work together to tackle corruption as a development challenge? It begins with our recognition of how and where corruption occurs in development projects and our acknowledgment that we can do something about it.

It is our hope that the lessons compiled in this publication are applied in the design, implementation, and monitoring of development projects. We are calling on everyone, especially all country officials and project teams, to join the fight against corruption and commit to taking bold steps in addressing corruption and ensuring that development funds entrusted to our care are used for their intended purposes.



Underground inspection. Inspection of underground works of an energy project in Bhutan (photo by proactive integrity review team).

SECTION 1

What Is a Proactive Integrity Review?



Materials storage inspection. Inspection of pipes for a water project in Marneuli, Georgia (photo by proactive integrity review team).

What Is a Proactive Integrity Review?

The Anticorruption Policy of the Asian Development Bank (ADB) affirms its zero tolerance for corruption and lays the foundation for championing and implementing anticorruption efforts. ADB’s Strategy 2030 further upholds good governance and institutional capacity as one of seven operational priorities for a prosperous, inclusive, resilient, and sustainable Asia and the Pacific.

The Office of Anticorruption and Integrity (OAI) supports the Anticorruption Policy and the implementation of ADB’s Strategy 2030 operational priority by adopting a multipronged anticorruption approach aimed at (i) prevention and compliance, and (ii) enforcement.

ADB’s proactive integrity review (PIR)⁴ is founded on the principle that prevention is better than cure. It is a mechanism to root out areas of noncompliance, vulnerability, and integrity risks in ongoing ADB-financed or -administered projects. PIRs (i) identify and assess the integrity risks in procurement, contract and asset management, and financial management, and (ii) recommend measures, where necessary, to mitigate these risks to ensure project funds are used for the intended purposes.

Since 2003 until December 2020, OAI has completed 91 PIRs encompassing 6 sectors across 28 countries in Asia and the Pacific.⁵ OAI’s follow-up reviews of selected

Figure 1: Proactive Integrity Review Process Flow



1 Preliminary Planning

- Identify projects based on selection criteria
- Notify ADB stakeholders



2 Detailed Planning

- Understand the project and determine review scope and procedures
- Recruit consultants
- Arrange mission logistics
- Inform stakeholders of review requirements

⁴ In 2019, OAI renamed project procurement-related review as proactive integrity review.

⁵ This covers PIRs and follow-up reviews conducted between 2003 and 2020. Of the 91 reviews, 14 pertain to follow-up reviews.

PIRs assess the implementation status and impact of PIR recommendations on project administration and execution. From these 91 reviews, OAI has drawn the major integrity risks and recommended measures and tools to help project teams of executing and implementing agencies and ADB design and implement their projects.

OAI has collaborated with ADB departments, supreme audit institutions, multilateral development banks, and other international financial institutions (IFIs) in conducting some of these PIRs to foster knowledge exchange and experience sharing. Capitalizing on the fieldwork missions, OAI works closely with executing and implementing agencies in

developing action plans to address integrity risks. OAI also seeks opportunities to collaborate with various stakeholders to maximize and expand the reach of lessons drawn from PIRs.

As part of its PIRs, OAI utilizes technology tools such as data analytics to process a large quantity of information into manageable and meaningful data, and geotagging locations of project outputs during asset inspection. ADB continues to innovate and improve the quality of anticorruption measures and institutional oversight to protect the integrity of project resources and development financing. Figure 1 depicts the PIR process.



3

Fieldwork and Preliminary Analysis

Review documentation and conduct interviews

Inspect project assets

Analyze and document preliminary findings and risk implications

Discuss preliminary findings with the executing and/or implementing agency and ADB's operations and other relevant departments

Draft the findings and recommendations matrix and seek additional comments



4

Detailed Analysis and Reporting

Draft the report and seek comments from the executing and/or implementing agency and ADB's operations and other relevant departments.

Issue the final report to the executing and/or implementing agency and to ADB's operations and other relevant departments.

Publish the final redacted report on ADB's website

✓ OAI considers all comments before publication.



Tunneling works. Inspection of tunneling works in Trongsa, Bhutan (photo by proactive integrity review team).

SECTION 2

Impact of Proactive Integrity Reviews



Inspection of delivered goods. A representative of the project implementation unit inspects goods delivered to a hospital in a province in Mongolia (photo by proactive integrity review team).

Impact of Proactive Integrity Reviews

PIRs have gained recognition as an effective anticorruption prevention tool. To multiply the impact of PIRs, OAI works in tandem with internal and external development partners and stakeholders to promote collective and unified action against corruption.

ADB guidance and instruction documents. Lessons learned from PIRs enable project teams of executing and implementing agencies and ADB to mitigate integrity risks as early as possible in the project cycle, and better manage and implement ADB projects. ADB's operational policies and procedures require ADB project teams to apply PIR lessons

at various stages of the project life cycle (Table 1). OAI works closely with other departments and offices such as Sustainable Development and Climate Change Department, Procurement, Portfolio and Financial Management Department, and regional departments and continues sharing PIR lessons throughout the risk assessment exercises (e.g., country and sector/agency procurement risk assessments, financial management assessments). These risk assessments will inform the development of country partnership strategies and country operations business plans when planning new projects with developing member countries (DMCs).

Table 1: Proactive Integrity Review Lessons Embedded throughout the Project Life Cycle

ADB DOCUMENT	PROJECT LIFE CYCLE	PIR-RELATED REQUIREMENT
Second Governance and Anticorruption Plan	Country Partnership Strategy/Regional Cooperation Strategy	Requires staff to consider PIRs, which identify project vulnerabilities to fraud and corruption, recommend mitigating measures to better safeguard project resources and provide useful information on the risks and challenges encountered in ADB projects, in linking governance risk assessment to programs and projects.
Staff Instruction on Business Processes for Sovereign Operations	Preparation - Approval	Requires project staff to consider the findings of PIRs in determining integrity concerns.
Staff Instruction on Business Processes for Multitranché Financing Facility	Preparation - Approval	Requires project staff to consider the findings of PIRs in determining integrity concerns.
Guide on Assessing Procurement Risks and Determining Project Procurement Classification	Preparation	Requires staff to review PIRs, among other ADB documents, to include ADB's own procurement experience as part of the planning process for country and sector/agency procurement risk assessment.
Project Administration Instructions – Preparatory Work for Procurement	Preparation	Requires consideration of common implementation and management issues and lessons learned identified in the PIR for similar projects in the same sector, in the executing agency's assessment during preparatory work for procurement.
Staff Instruction on Business Processes for Additional Financing	Implementation	Requires project staff to assess whether irregularities and project vulnerabilities identified by a PIR have been addressed and will neither persist nor recur under the overall project.
Project Administration Instructions – Project Completion Report for Sovereign Operations	Completion/Evaluation	Requires staff to analyze the problems encountered and issues raised during project implementation and include lessons learned from various review reports, including PIRs, in the project completion report.

Note: The list of ADB documents featured in Table 1 is not exhaustive and meant to illustrate how PIRs impact the project life cycle. The document versions are as of December 2020.

PIR = proactive integrity review.

Source: Asian Development Bank.

Knowledge products. OAI also developed and made available preventive tools and knowledge products to prevent integrity risks as presented in Table 2.

Table 2: Proactive Integrity Review Knowledge Products

KNOWLEDGE PRODUCT	DESCRIPTION
	<p>Proactive Integrity Review Reports Intend to help executing agencies, implementing agencies, and ADB to identify and develop preventive measures to mitigate risks of fraud and corruption, improve project management, enhance project implementation, and replicate lessons learned for future projects.</p>
	<p>Explainer on Proactive Integrity Reviews Provides an overview of PIRs as a prevention tool.</p>
	<p>Tools for Project Management Help project teams of executing and implementing agencies self-assess project integrity risks. Chinese, Khmer, Lao, Tamil, and Vietnamese translations</p>
	<p>Asset Inspection for Project Integrity: A Reference Guide for Executing and/or Implementing Agencies Helps identify integrity risks and verify that project funds are used for intended purposes and beneficiaries. It provides checklists on preparation and inspection of goods and works, what to look out for, and the types of inspected project outputs.</p>
	<p>Ensuring Project Integrity through Asset Inspection: Toolkit for RDs and RMs Provides practical steps for inspecting project outputs or work in progress.</p>
	<p>Series of Sector Lessons Learned: Agriculture, Natural Resources, and Rural Development; Education; Energy; Health; Transport; and Water Presents lessons learned from 87 PIRs completed from 2003 up to 2019 and highlights recommended measures to mitigate identified integrity risks. These documents are useful for ADB and government project teams as they design and implement projects.</p>

Workshops and e-learning modules. ADB’s awareness-raising materials and trainings incorporate lessons learned from PIRs. These knowledge programs help project stakeholders understand their role in identifying and mitigating integrity risks, and detect and prevent fraudulent or corrupt practices.

Integrity risk management reviews. Lessons learned from PIRs continue to be a useful resource in the integrity risk management reviews (IRMR) of preapproval project

documents for sovereign operations in ADB’s pipeline.⁶ IRMRs assist the project teams in identifying integrity risks, advise on mitigation measures and, when necessary, identify the need for enhanced integrity due diligence. OAI applies lessons learned from its PIRs in determining vulnerabilities, including executing agency capacity, procurement, asset management, and financial management. OAI’s feedback and guidance seek to ensure that adequate preventive measures are programmed into projects prior to implementation.

Independent Evaluation Department’s Recommendation on Use of PIRs

In an evaluation study in 2014, ADB’s Independent Evaluation Department recommended that (i) PIRs be utilized as a source of information to assess the management of fiduciary risks in ADB projects, (ii) more resources be made available to OAI to broaden the sample of PIRs, and (iii) actions taken by operations departments and executing agencies on PIR recommendations be monitored.

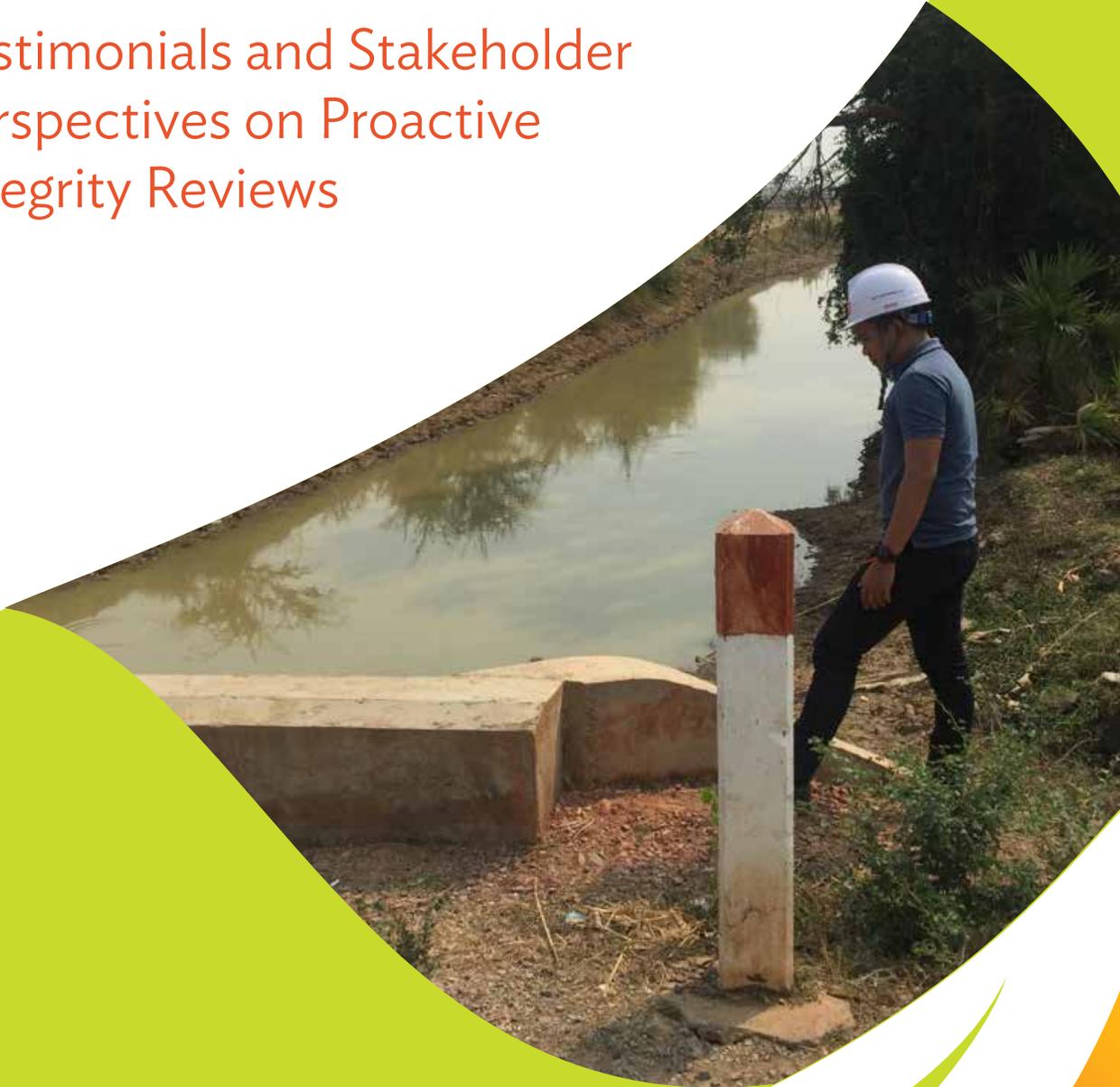
ADB should closely monitor the results and trends of OAI PPRRs [PIRs] to gauge the effectiveness of ongoing risk assessment and mitigation efforts. [Operational] departments should implement actions in response to the recommendations of these reviews, with follow-up by OAI.

—Thematic Evaluation Study,
ADB Independent Evaluation Department

⁶ Preapproval documents refer to documents in the preparation of a technical assistance (TA) or loan and/or grant program, or project proposals such as concept papers, reports, and recommendation of the President to the Board of Directors and relevant attachments, and TA reports and attachments.

HIGHLIGHTS

Testimonials and Stakeholder Perspectives on Proactive Integrity Reviews



Complete project output inspection. A proactive integrity review (PIR) engineer inspects the quality of a completed road and miscellaneous works for a project in Cambodia (photo by PIR team).

Executing and Implementing Agencies



On enhancing efficiency and transparency

“ADB has a very important role and participation in the main sectors of Mongolia, including health. A number of recommendations provided during the (PIR) have proven that independent inspection and evaluation has a very important contribution to the project. A mission is working now to provide independent inspection and recommendations. I wish it every success.”

– **D. Unubold**
*former Project Director,
Mongolia Fifth Health Sector
Development Project*

Read more on this PIR in the [Development Asia case study](#)



On addressing weaknesses and ensuring compliance

“We made sure that whatever had been observed from your end served as a compliance list for us, as a checklist for us, so we could make sure that nothing went wrong in this project.”

– **Rahul Goswami**
*Deputy General Manager
(Town Planning),
Jaipur Metro Rail Corporation*

Read more on the PIR experience on [OAI's Review of the Metro Rail Project](#).

ADB Regional Departments and Resident Missions



“[PIR] has had a very positive impact. At the time the mission came, we identified some issues that were not at a very serious stage, at the moment, but without the mission, it might have evolved in a different direction and delayed the proper implementation and objectives of the project. It was also a wakeup call for the officials of the Ministry of Health, reminding them that they have to pay more attention to important details to ensure full compliance.”

– **Yolanda Fernandez Lommen**
*ADB Country Director, Mongolia
Resident Mission*

Mitigating risks and enhancing operations



“Georgia Resident Mission has reviewed the (PIR) draft [follow-up] report and is pleased to notice that 17 out of 18 recommendations of the 2016 (PIR) have been implemented, and that the remaining recommendation while not fully implemented does not pose integrity risks. This is a demonstration of the improvement made by the implementing agency and the supervision consultants since 2016. We like to express our appreciation for the contribution of the [PIR] team to the improvement of project results with its in-depth look into the procurement and asset management of the contracts under Tranches 3 and 4. It allows the agency to improve its implementation and ADB to improve its oversight.”

- **Michiel Van Der Auwera**
Senior Financial Sector Specialist (Social Security), Central and West Asia Public Management, Financial Sector, and Trade Division

Supreme Audit Institutions and International Finance Institutions



“The PIR exercise would not only enhance and promote good partnership between the Commission and ADB but would also permeate best practices in fraud detection and prevention among our auditors.”

- **Heidi L. Mendoza**
Former Commissioner, Officer-in-Charge, Commission on Audit, Philippines

Collaboration and knowledge sharing: best practices and skills development



“The experience with (ADB PIR) Team was a thrilling journey in the project’s procurement processes, including the awards, the implementation and financial management aspects, intended to identify the red flags of integrity violations and sanctionable practices. In other words, (PIR) is the opportunity to identify and assess a disease before it is introduced, or its first symptoms appear.”

- **Palabe Nanan**
African Development Bank



Safety on-site. Workers in an energy project in Bhutan wearing complete safety gear (photo by proactive integrity review team).

CASE STUDIES



Instilling safety measures. Construction safety signs installed at the project site in Georgia in 2019 (photo by proactive integrity review team).

Case Study 1

NEPAL: Ringfencing integrity risks in a decentralized agriculture and natural resources sector project



Selling produce for livelihood. Women play a key role in farming life in Nepal, like Dil Maya Magar, a cabbage farmer from Thade (photo by ADB).

The overall goal of the ADB Loan 2092-NEP(SF): Decentralized Rural Infrastructure and Livelihood Project (DRILP) was to reduce rural poverty in 18 remote upland districts affected by the conflict in Nepal.

In 2010, OAI initiated a PIR on DRILP jointly with the Auditor General's Office of Nepal. OAI worked with the Ministry of Local Development (MLD) through the Department of Local Infrastructure Development and Agricultural Roads, in coordination with ADB South Asia Department (SARD), specifically ADB Nepal Resident Mission (NRM).

The PIR found vulnerabilities that are inherent in decentralized projects implemented in poor, remote, and conflict-affected districts. Integrity risks were identified in the project's (i) procurement, (ii) financial management, and (iii) contract and asset management processes.

One of the most significant findings was the presence of syndicated bidding where several bidders appeared to have colluded before submitting bids.

The report provided recommendations to better safeguard development funds from integrity violations, which the then director general, ADB SARD and former country director,

NRM believed critical to the success of the implementation of highly decentralized projects in Nepal.

"It was great to work with (PIR) team. Such an excellent work and very useful for Nepal. We never had done this kind of a comprehensive procurement and contract administration audit in the past. In a sense, this work was very unique and there are lots of need to apply it for other sectors and projects," said former Head, Portfolio Management Unit, NRM.

Shortly after the findings were discussed and published, NRM formed an action plan to address the findings of the PIR and to ensure oversight, tracking, and reporting mechanisms.

The action plan, which was prepared in consultation with relevant ADB departments, Nepal's Ministry of Finance, and the executing agencies for similar decentralized projects was implemented at the local level in widely scattered areas, with most contracts procured through small national competitive bidding, shopping, and/or community procurement packages. The action plan was circulated to all executing and implementing agencies of nine highly decentralized projects. Actions taken included (i) preparing larger procurement

packages, (ii) undertaking random checks of supporting documents during project review missions, (iii) advancing e-procurement, (iv) circulation of checklist for procurement evaluation personnel, and (v) mobilization of consultants to undertake district level performance review, including training and guidance sessions.

NRM closely monitored the implementation of the action plan and reported the implementation status on a regular basis.

Two years later, NRM reported that the executing agencies had responded with substantial reduction in the number of procurement packages from 1,126 to 264 between 2012 and 2013. NRM also organized a number of training and orientation sessions for the staff of executing agencies of the 9 projects to (i) raise their awareness on fraud and corruption risks, (ii) strengthen compliance with procurement policies and procedures, and (iii) improve financial management capacity. NRM mobilized staff consultants to assess the implementation status of the action plan at district level.

In December 2013, representatives from Nepal's Ministry of Finance and NRM jointly showcased with ADB's OAI in a session during the Anticorruption Week, their success in drawing up the action plan and their commitment in

improving project implementation by applying lessons learned from the PIR to ADB-financed or -administered projects in Nepal. The Ministry of Finance emphasized minimizing risks by implementing and monitoring the actions taken.



TAKEAWAYS

- Procurement irregularities are common in decentralized project implementation. To a large extent, these are attributable to the inherent complexity and difficulties in managing large-scale decentralized projects, i.e., projects involving numerous project components, locations, and implementing entities.
- The diffusion of responsibilities in implementing such projects requires strong accountability and control mechanisms at all implementation levels. Strengthened due diligence, as well as project supervision and oversight, are vital to the successful delivery of decentralized projects.



Vegetable farm located in Todke, Nepal. Irrigation on farms can be extremely difficult with Nepal's mountainous terrain, particularly in remote rural areas (photo by ADB).

Case Study 2

LAO PDR: Ensuring proper accountability and controls in a health project for the poor and vulnerable



Communicable diseases pose a threat both to the health and economy of the Greater Mekong Subregion. In 2013, OAI initiated a PIR of Grant 0232-LAO(SF): Second Greater Mekong Subregion Regional Communicable Diseases Control (CDC2) Project.

The objective of the project was to timely and adequately control emerging and epidemic infectious diseases which significantly affected tourism, trade, and productivity along the Greater Mekong Subregion in Cambodia, the Lao PDR, and Viet Nam.

The grant sought to enhance regional CDC systems, improve CDC along borders and economic corridors, and implement integrated project management. The PIR process required collaboration and day-to-day implementation activities between the Ministry of Health, the project management unit (PMU), as well as with the National Center of Malariology, Parasitology and Entomology, the National Center for Laboratory and Epidemiology and 12 provincial health offices.

The PIR assessed the procurement processes for project commitments covering selected contracts, including related disbursements. It also reviewed documents and processes relating to project-related expenses claimed by and reimbursed to the PMU.

The PIR identified vulnerabilities and risks in procurement of consulting services, and financial management brought

about by weak PMU governance. There were PMU expenses that were unsubstantiated, hence the eligibility of project expenses could not be determined. The PIR gave a seven-point recommendation to enhance project implementation integrity.

“We are in overall agreement with the findings and we are ready to proceed to implement the relevant recommendations from the review. The points identified and ensuing recommendations will be helpful to the project in enhancing implementation integrity and compliance with regards to internal controls, procurement and financial management,” said former deputy project director, project coordination unit, Lao PDR.

The project benefited from the PIR’s mitigating measures to ensure health security and enhance health systems for the beneficiaries.

TAKEAWAY

Project implementation integrity in the case study calls for ensuring transparency, fairness and improving accountability and controls over procurement, and strengthening fiduciary oversight over financial management activities.



Case Study 3

SRI LANKA: Improving transparency in the education sector

Support for secondary schools. ADB has provided support to secondary schools, which included targets for information and communications technology upgrades (photo by ADB).

Equipping students with advanced skills for the modern economy is crucial for Sri Lanka.

ADB provided support through the Secondary Education Modernization Project II (SEMP II). The project aimed to upgrade about 1,000 target schools and provide system-wide support to 2,300 secondary schools.

In 2010, OAI conducted a PIR of the SEMP II to examine the procurement and disbursement documents, inspect selected civil works and goods, and perform a review of the financial management system.

The PIR helped strengthen control procedures and ensure the procurement process was transparent and compliant to ADB's Procurement Policy. The PIR also helped identify challenges faced by the Ministry of Education (MOE) and project management office inherent in decentralized projects implemented in conflict-affected provinces. The PIR established the importance of coordination between the ADB Sri Lanka Resident Mission (SLRM) and MOE in decentralized projects to help ensure that relevant staff in provincial offices are trained to manage and account for the project funds. The review recommended building greater collaboration between SARD, SLRM, and MOE, not just to achieve project efficiency but also to improve transparency in procurement and financial management.

An action plan was subsequently developed to improve the capacity of the project and address long-term implications for procurement and financial management processes in

the education sector. This may subsequently strengthen country systems.

“The Ministry of Education appreciates the assistance/guidance and the suggestions by ADB which would ensure that investments are utilized according to stipulated procedures with transparency,” said former project director of SEMP II in response to the PIR findings and recommendations.

The project was rated *effective* in developing a secondary education system that is “equitable and responsive to labor market requirements.” Overall, the project has been successful in helping increase the number of students studying science and information and communications technology subjects.⁷

TAKEAWAYS

- ADB recognizes the challenges inherent in decentralized projects and in conflict-affected provinces that are faced by the executing agency and the project management office.
- To ensure transparent procurement and financial management capacity at all levels, greater collaboration is required between ADB regional department, resident missions, and the DMC government in establishing and implementing an effective monitoring mechanism between the different stakeholders in decentralized project implementation.

⁷ ADB. 2012. Project Completion Report: Sri Lanka: Secondary Education Modernization Project II.

Case Study 4

PHILIPPINES: Partnering with supreme audit institutions to combat corruption



Review of documents. A Philippine Commission on Audit (COA) representative and a proactive integrity review (PIR) staff doing document review during the PIR of the Philippines' Road Improvement and Institutional Development Project (41076-044). COA's close collaboration with ADB's PIR team in 2013 resulted in mutual knowledge-sharing and capacity building (photo by proactive integrity review team).

Supreme audit institutions (SAIs) play a key role in ensuring public accountability and promoting good governance as ADB member countries. OAI considers SAIs as partners, and may engage them to jointly conduct PIRs. In 2014, OAI and the Commission on Audit (COA) worked together to conduct a PIR of the Philippines' Road Improvement and Institutional Capacity Development Project. Two COA representatives participated in the PIR, including 4 weeks of fieldwork mission.

PIRs call for inspections of projects, assessments of internal controls, and identification of irregularities and possible noncompliance cases. The PIR allowed COA and ADB to identify and develop preventive measures for future projects.

Through the joint PIR, COA and OAI were able to exchange experience on fraud detection and prevention; share knowledge on audit concepts, techniques, and best practices; and enhance their collaborative partnership for future activities. Both OAI and COA benefited from working together to improve the implementation of foreign-assisted development projects in the Philippines.

TAKEAWAY

ADB welcomes the participation of supreme audit institutions in conducting PIRs. ADB welcomes the participation of supreme audit institutions during PIRs as a unique opportunity to enhance collaboration and knowledge-sharing of fraud and corruption prevention.



Case Study 5

ADB and the Nordic Development Fund: International financial institutions join hands to benefit from a combined global perspective of anticorruption trends



Training on integrity due diligence. Nordic Development Fund representatives, and Cambodia Resident Mission and project management unit staff of Cambodia's Rural Road Improvement Project and Rural Roads Improvement Project II (42334-013 and 42334-014) learn how to conduct due diligence on potential partners for ADB financed-projects (photo by proactive integrity review team).

In 2014, ADB and the Nordic Development Fund (NDF) signed a cooperation agreement to deepen their partnership. As part of this arrangement, the institutions committed to

carry out a PIR of a joint ADB-NDF project to improve rural roads in Cambodia.



Collaboration for anticorruption. Nordic Development Fund (NDF) representatives and the proactive integrity review team (PIR) doing a detailed walk-through of documents regularly examined during PIRs. The collaboration is intended to jumpstart the capacity-building of NDF in potentially conducting similar reviews in funded projects. (photo by proactive integrity review team).

The partnership between NDF and OAI enhanced mutual understanding and collaboration. Lessons from the PIR were further discussed in a capstone activity held in 2016 with NDF, Nordic Investment Bank, and the Nordic Environment Finance Corporation.

NDF will use the knowledge gained from the PIR to establish similar mechanisms for NDF projects.

TAKEAWAY

The fight against corruption requires a global partnership to promote a unified front against corruption. OAI continues to draw inspiration from its global anticorruption alliances and to share lessons learned from PIR success stories, specifically those working to establish their own proactive review approach.





Water project inspection. Inspecting a water project in Georgia (photo by proactive integrity review team).

SECTION 3

Lessons Learned on Integrity Risks



Quality assurance. In-house laboratory testing of construction materials for a road project in Kazakhstan (photo by proactive integrity review team).

Lessons Learned on Integrity Risks

Integrity risk is the risk that project funds are diverted from their intended purposes due to fraud, corruption, and other integrity violations.⁸ Integrity violations are more likely to occur if integrity risks are not identified and addressed in a timely and effective manner. Integrity risk management is an essential prerequisite for ensuring that project funds achieve their intended development benefits.

PIRs identify indicators of fraud and corruption (also known as red flags) in project implementation processes (i.e., procurement, contract and asset management, and financial management), and the related subprocesses (i.e., bidding, bid evaluation, output monitoring, and expenditures management). Project staff should be alert to red flags of integrity violations to reduce integrity risk and improve internal controls procedures. These will help enhance accountability and control, fairness and transparency in project implementation, and project success. Suspected integrity violations must be reported to OAI for assessment and possible investigation.

This section, which aims to impart lessons learned from PIRs, describes common red flags of fraud and corruption OAI detected through PIRs (see Boxes 1 to 12). These are presented by project implementation process and subprocess, as well as the underlying fraud scheme as depicted in Table 3.

To inform the project teams how to spot these red flags, OAI compiled examples for each red flag and case studies which depict the abbreviated cases, and those that illustrate the impact of the red flags in the delivery of project output.

OAI also included checklists on how to spot red flags during procurement (p.40), output monitoring (p.46), and expenditures processing (p.53). These checklists provide an indicative list of questions to assist project teams in identifying potential integrity violations. The importance of early detection of suspected integrity violations could not be overemphasized. Project teams are encouraged to use these checklists.

Integrity risks in a project's implementation processes, if not addressed, will heighten the risk of an integrity violation occurring. The section winds up with mitigating tools to address these integrity risks. These tools, presented through checkpoints are anchored on the three integrity pillars of transparency, fairness, and accountability and control, where applicable for procurement (Appendix 1), contract and asset management (Appendix 2), and financial management (Appendix 3).

Project teams are urged to apply the mitigating tools as they design and implement their projects.

⁸ Integrity violation is any act which violates ADB's Anticorruption Policy, including corrupt, fraudulent, coercive, or collusive practice, abuse, conflict of interest, and obstructive practice. Other integrity violations include violations of ADB sanctions, retaliation against whistleblowers and witnesses, and other violations of ADB's Anticorruption Policy, including failure to adhere to the highest ethical standards.

Table 3: Presentation of Red Flags of Fraud and Corruption



<p>PROCESS</p> <p>Procurement</p>	<p>PROCESS</p> <p>Contract and Asset Management</p>	<p>PROCESS</p> <p>Financial Management</p>	
<p>SUBPROCESS</p> <p>Bidding</p>	<p>SUBPROCESS</p> <p>Bid Evaluation</p>	<p>SUBPROCESS</p> <p>Output Monitoring</p>	<p>SUBPROCESS</p> <p>Expenditures Management</p>
<p>SCHEMES</p> <p>Corruption – Bribery</p> <p>Conflicts of Interest</p> <p>Collusive Bidding</p> <p>Fraudulent Practice</p> <ul style="list-style-type: none"> Rigged Specifications False Statements Phantom Vendors 	<p>SCHEMES</p> <p>Bid Manipulation</p> <p>Unbalanced Bidding</p>	<p>SCHEMES</p> <p>Failure to Meet Contract Specifications</p>	<p>SCHEMES</p> <p>False, Inflated, and Duplicate Invoices</p> <p>Phantom Vendors</p> <p>Conflicts of Interest</p>

Source: ADB (OAI).

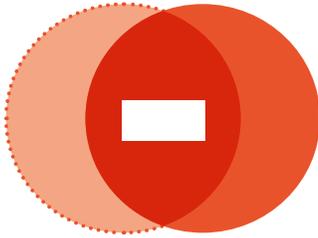
Indicators of Procurement and Contract Fraud



Checking for integrity risks. Preparing a proactive integrity review (PIR) for an energy project in Bhutan, 2019 (photo by PIR team).

Procurement: BIDDING

PIRs found instances of bidders misrepresenting their financial strength, prior experience, and other qualifications; fraudulent bid securities; and bidding patterns that suggest collusion. The red flags identified could have undermined the fairness of the procurement process and could have led to the selection of un- or under-qualified contractors; gross inflation of costs; failure to complete works; delivery of sub-standard materials, and total project failure.



Scheme: Corruption-Bribery

A corrupt practice is the offering, giving, receiving, or soliciting, directly or indirectly, anything of value to influence improperly the actions of another party. Corruption in bidding tends to drive up prices, increase the risk of bid suppression and market allocation, defeat the competitive process, and pose a risk to quality of the output.

Red Flags of Bribery. PIRs found indications of bribery as most significant where contract prices were unjustifiably high, a particular supplier was directly selected, and unnecessary broker was involved in contracts or purchases. Third party commissions or fees to agents

disguise corrupt payments to secure a contract or to have special influence with the buyer. These are apparent in the case study in Box 1.



Box 1: Case Study on Bribery

ADB's proactive integrity review (PIR) identified that a vendor firm may have paid bribes to an executing agency "official for a single-sourced contract." The purchase price for equipment was 154% higher than in a subsequent bid submitted 7 months later.

The owner of the firm advised the Office of Anticorruption and Integrity (OAI) that on a single unit basis, the selling price included a guaranteed 25% margin for the firm; other various costs, including transport, storage, inventory, finance, duties and taxes; and "third party commission" to expedite payment. The sales manager who submitted the quotation did not respond to any of OAI's letters to provide his version of events.

While the exact amount of the "third party commission" cannot be determined, OAI believed that payment for the single equipment included up to 60% of the cost which was paid to the executing agency official concerned. OAI concluded that the payment of a commission of this nature was an attempt to improperly influence the actions of the executing agency official, most probably to secure the contract for the additional

25 units, in addition to the stated goal of securing quick payments. Payment of this magnitude would be an excessive amount to pay to expedite government payment processes for a single purchase.

ADB debarred the firm, the firm's owner, and the sales manager.

TAKEAWAYS

- Unjustifiably significant purchase price for a single equipment, i.e., over 100% from a similar equipment in this case is a disguise to corrupt payments.
- Payment of a "third party commission," in this case 60% that exceeds the norm is corrupt practice intended to improperly influence an executing agency official.
- Use of direct purchase when combined with significant pricing and third party commission exacerbates corruption.



Source: ADB (OAI).



Scheme: Conflicts of Interest

A conflict of interest is any situation in which a party has interests that could improperly influence that party's performance of official duties or responsibilities, contractual obligations, or compliance with applicable laws regulations. Such conflict of interest may constitute a prohibited practice under the ADB Anticorruption Policy. Conflict-of-interest situations that are not properly managed undermine ADB's efforts to protect projects from undue influence in the performance of duties. These situations deprive the project of the benefits of free and open competition, and impair the quality of services, goods, and works financed by ADB.

Red Flags of Conflicts of Interest. Conflicts of interest usually involve a person with procurement responsibilities having some undisclosed personal financial interest in the process. Without adequate and timely management, conflict of interest situations could lead to higher overall project costs. The red flags of conflict-of-interest situations observed by PIRs are shown below, and case studies are presented in Box 2.

- ▶ Unexplained or unusual favoritism of particular contractor or vendor
- ▶ Contracting personnel failed to disclose conflict of interest
- ▶ Close socialization with a contractor or vendor, e.g.,
 - ▷ one of the key officers of a consulting firm was said to be related to, or otherwise have close relationships with, government officials that were involved in awarding of the contract
 - ▷ a director of a consulting firm hired to assist in the preparation of bid invitations was a key staff member of the contractor that was awarded the contract.



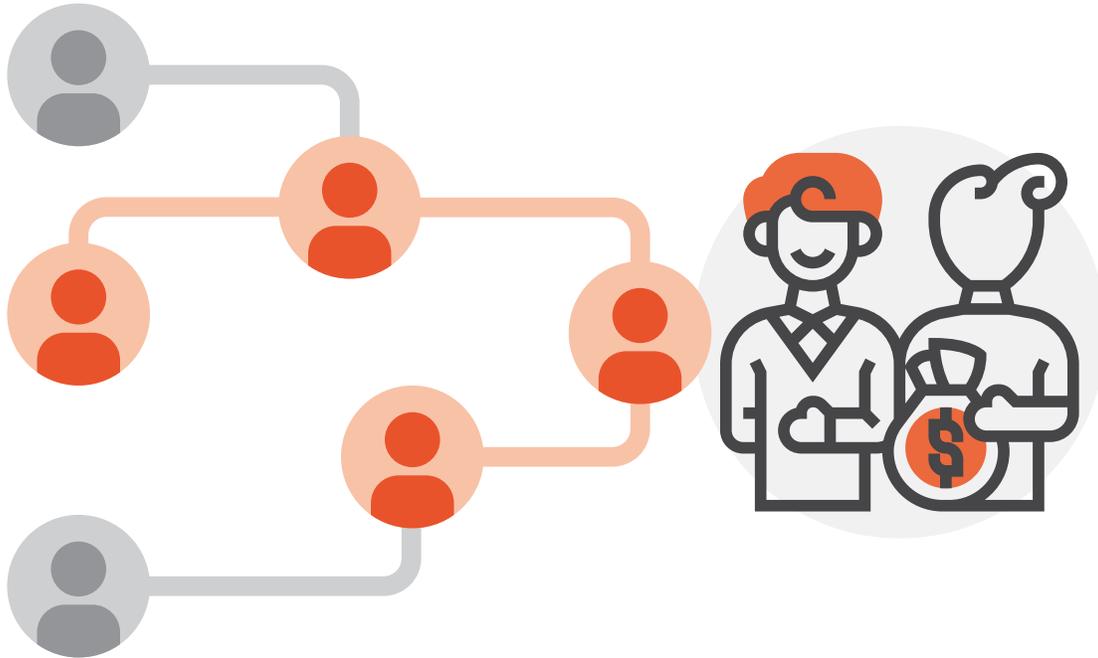
Box 2: Case Studies on Conflicts of Interest

Case Study 2A: A Project Manager's Private Interests Conflicted with his Official Duties

The proactive integrity review (PIR) noted that a fundamental internal control weakness in the administration of an ADB-financed project was the lack of separation between the project manager and his interests in the project contractors. The project manager had relationships with three project contractors, which conflicted with ADB's Standard Bidding Documents and ADB's Anticorruption Policy as his personal interest could influence the procurement evaluation process.

Aside from unmanaged conflict-of-interest situations, the PIR identified the following potential integrity violations by the winning firms:

- i. Three firms associated with the project manager won six major contracts and three subcontracts in the project. These firms potentially violated ADB's Anticorruption Policy as follows:
 - a false bid security was submitted by a firm (jointly with an unrelated firm) in a tender for an equipment;



- a company registration certificate was forged in a tender related to survey work; and
 - financial records were misrepresented in a bid.
- ii. The project manager’s name appeared on the payroll of Firm A for 1 year, while he was project manager. During this same period, the project manager remained as Firm B’s major shareholder, and a close relative of the project manager served as an executive director at Firm B and as Firm C’s accountant. Another of the project manager’s close relatives held key positions concurrently in all three of the firms during this period.
 - iii. In two cadastral survey work tenders, the bid evaluation committee failed to disqualify a firm earlier disqualified on the grounds that the project manager used to work for that firm, i.e., conflict of interest with the project manager.
 - iv. Many of the contractors purchased equipment for survey work from the project management unit (PMU). The PMU prohibited contractors from using other brand of this equipment for uniformity reasons. The contractors either paid cash directly to PMU’s surveyor or the PMU would deduct a certain amount for the equipment from their invoices. Local sources disclosed that the firm was a partnership between
 - a close relative of the PMU’s surveyor and a close relative of the project manager.
 - v. The project manager signed a payment voucher that authorized payment to Firm D related to the project manager but had never participated in any survey works of the project. The description in the payment voucher stated it was a payment for survey work, whereas Firm A related to the project manager issued the invoice attached to the voucher.

TAKEAWAY

The misuse of public office to influence the project decisions or exercise significant influence over a bidder or contractor for personal gain or interest is an integrity violation which compromises the project’s integrity. The executing agency’s failure to recognize the inherent conflict with the project manager’s private interests raised the risk that the procurement process was manipulated, and the project administration’s integrity and quality were undermined. The conflict of interest led to internal controls being set aside.





Case Study 2B: Former Expert of the Supervision Consulting Firm under an ADB Project Was Engaged by the Executing Agency for the Same Role

The executing agency engaged a former financial management expert of the project's supervision consultants (Firm A) for the same role at the project implementation unit (PIU) when his contract with Firm A ended. This expert was to handle the financial management and disbursements for two ADB-financed projects. Since he was a former consultant of Firm A, there was conflict of interest as he was responsible for processing payments for Firm A's claims under the project.

The PIU claimed that they managed this conflict by having the project manager sign off on all Firm A's claims. While the PIU may have a procedure to address the conflict-of-interest situation, the control was ineffective. The PIR identified that claims in withdrawal applications of Firm A were not properly supported yet endorsed. Examples of these were claims for remuneration for experts not in the contract, unsigned daily timesheets of experts, and missing travel expense documents.

TAKEAWAY

Improper management of conflict-of-interest situations in this case led to overridden controls over financial management and misappropriation of project funds.



Case Study 2C: Expert Who Assisted the Consultant Selection Committee in Preparing Expressions of Interest Was an Expert of the Firm Awarded the Project Consultancy

The executing agency had a long-standing working relationship with an expert of the firm awarded the project consultancy for a project. This has resulted in the expert representing the executing agency in many situations, both on a retainer and volunteer basis.

During the time the Project was compiling expressions of interest from project consultancy firms, the expert—as a representative of the chair of the Consultant Selection Committee (CSC)—corresponded with ADB on matters pertaining to evaluation criteria and scoring for shortlisting, and discussed evaluation criteria and scoring with CSC members. This put the expert in a conflict-of-interest situation, given his participation in the bidding process as a named expert on a consultancy firm's proposal for the contract in question.

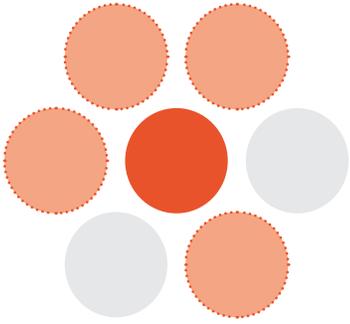
In this case, the involvement of the expert in the request for proposal process, in discussing and deciding on evaluation scoring with the CSC Chairman, and in discussing evaluation scoring with ADB, created a conflict-of-interest situation. The CSC should not have sought the expert's assistance, and the expert should have recused himself from the situation. The expert's advice and actions cannot be assumed to be objective, and this may have compromised the bidding process.

TAKEAWAY

A conflict of interest is not always avoidable, and where identified should be adequately managed. The mere appearance of impropriety should be avoided. All parties in this case must recognize that a conflict-of-interest situation was created. They must recognize and manage project processes to avoid such situations, so that advice received and actions taken for the project are as objective and transparent as possible.



Source: ADB (OAI).



Scheme: Collusive Bidding

Collusive practice is an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party. Suppliers and contractors in a particular geographic area conspire to defeat competition and rig prices, the objective of which is to increase the amount of business for each participant and the prices that they can charge.



Red Flags of Collusive Bidding. PIRs identified common indicators of collusion among contractors or suppliers during procurement. These red flags and examples are presented below. Case studies on collusive bidding are shown in Box 3.

- ▶ Similarities in bids, where bids for the same contract package had (i) the same unit prices for items in the bill of quantities; (ii) either the same or strong similarities in layout, and/or format, diagrams, specifications, wording, spelling, grammatical, typographical errors; (iii) the same or similar financial and technical information; and/or (iv) sequential bid securities issued by the same bank.
- ▶ Losing bids did not comply with bid requirements or were poorly prepared. These losing bids were intended to give the appearance of genuine bidding and not to secure evaluation committee's acceptance (bid to lose). For example,
 - ▷ In a contract with three participating bidders, the two losing bidders did not submit mandatory requirements, which caused their disqualification.
 - ▷ Firm A's bid was the only one received before the bid submission deadline, and therefore the only one opened. Six other bids were received, but these were all submitted late. No explanation was provided as to why these six bids were submitted late.
- ▶ Apparent connections between bidders, where competing bidders had the same address, telephone number, or common directors or shareholders. For example,
 - ▷ In one district, the winning bidders for three civil works contracts had the same registered address and directorship details, which indicated that the same contractors under different company names won a number of contracts, promoting unfair competition. In another district, where only two bidders submitted bids for a civil works contract, the directors of both firms are related, with the managing director of the winning bidder as the uncle of the director and uncle-in-law of the managing director of the losing bidder.
- ▶ Unusual bid patterns, where bids are too high, too close, or too far apart. For example,
 - ▷ In many of the bid packages in one of the districts covered by a decentralized project, most unit prices of the winning and losing bidders were either identical or consistently different from each other by the same percentage.
- ▶ Losing bidders cannot be located in business directories, have nonexistent address, indicating a fictitious complementary bidder (also a red flag of phantom vendor). For example,
 - ▷ In two shopping contracts awarded to the same vendor, the address of the losing bidder was that of a travel agency. In another contract, the address of a losing bidder did not exist.
- ▶ Few firms submitted bids, as bidders appeared to have made some arrangements among themselves before submitting bids to ensure that the contract is awarded to the predetermined winner. For example,
 - ▷ Where more than 20 contractors purchased bid documents, the level of participation was low, ranging from 9% to 22%. In one of the districts only one bidder submitted bids for Lots 1-14 out of a number of bidders that purchased bid documents.
 - ▷ The awarded bidders for five civil works

contracts in District B had bid exclusively for those packages that they won. In most cases, these five bidders did not purchase bid documents for other packages, although some of these were sold together. In cases where the winner of one package purchased bid documents for other packages, the contractor did not bid in any other package.

- ▶ Allowing an unreasonably short time to respond to requests for bids, brought about by insufficient advertisements or short bidding periods. This does

not provide sufficient time for all qualified bidders to prepare a quality and competitive bid, and thus restricts bidders' participation and competition. For example,

- ▷ Bidders for 6 national competitive bidding civil works contracts were only given 15 days (instead of 30 days) to prepare and submit their bids. This contributed receipt of only 1 or 2 bids for each of the 4 contracts.

Box 3: Case Studies on Red Flags of Collusive Bidding

Case Study 3A: Similarities in Bids and Conflict of Interest between Bidders

A proactive integrity review (PIR) disclosed possible collusion during the bidding for supply and delivery of furniture. Bids from two firms were strikingly similar. Both firms proposed the same furniture with identical manufacturing codes, and the furniture summary tables included in both firms' bids showed obvious similarities in layout.

The Office of Anticorruption and Integrity's (OAI) further inquiry uncovered a business relationship between the two firms and their prearranged bidding strategy for other projects.

ADB found that the two firms and three individuals colluded in preparing bids and debarred them.



Case Study 3B: Similarities in Bids and Phantom Bidders

A PIR disclosed that the two losing quotations for a contract in an ADB- financed project were unusually similar, while the bid price proposed by the winning vendor was almost the same as the executing agency's cost estimate.

An examination of the two losing quotations revealed that in their layout and structure, both were similar. The address block and specifications in both bids were identical except for the typeface used. Furthermore, there were distinct similarities between the prices quoted by all three bidders.

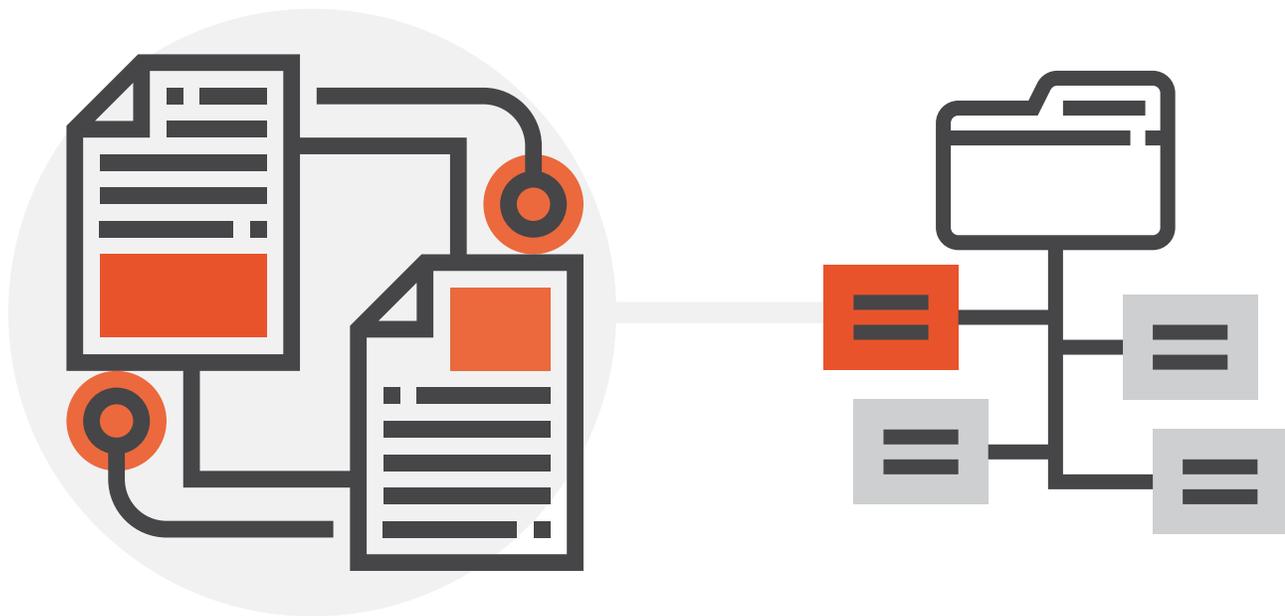
OAI determined that the winning vendor had engaged in a fraudulent practice by fabricating at least one and possibly both of the losing quotations in order to mislead and to obtain a financial benefit. OAI did not identify any impropriety in similarity between the executing agency's cost estimate with the bidder's.

ADB sanctioned the winning vendor.

TAKEAWAY

Similarities in bids coupled with a limited number of bidders are indications of collusion among bidders, or the same bidder preparing and/or fabricating the losing bids to give the appearance of competition when there is none.





Case Study 3C: Similarities in Bids with Losing Bidders Submitting “Bids to Lose”

A PIR noted that only the winning bidder (Firm A) submitted a bid security. The other two bidders (Firms B and C) were disqualified for not submitting bid securities, placing one bidder as the only remaining qualified bidder. The PIR also disclosed similarities in the bids submitted for a contract, all indicative of collusion. The three bidders submitted (i) identical balance sheets for the same fiscal year; (ii) bids that contained identical misalignment errors, content, font, spacing, and headings in the same form; and (iii) bid documents that were signed on the same date, the bid opening date.

OAI established that (i) the director of Firm A was not aware of any bid submitted for an ADB project and he indicated that majority of the bids for the firm were prepared by an agent who had connections to members and former member of the parliament; (ii) the director of Firm B, one of the losing bidders did not know the details of the firm’s activities as everything was arranged by his uncle (the owner) for a monthly fee, and thus, his name was used to submit bids for the firm; and (iii) the identical balance sheets and other similarities identified were not coincidental because the same person/s

prepared the bids. The director of the other losing bidder, Firm C could not be located.

The winning bidder, its director, and agent engaged in collusive practice. The two losing bidders who were connected to the winning bidder, including the owner of one of the losing bidders were responsible for submitting their bids signed by their respective directors, and thus engaged in collusive practice.

ADB debarred the three firms and five individuals.

TAKEAWAY

This case study illustrates a combination of red flags of collusive bidding (e.g., similarities in bids and losing bids did not comply with bid requirements). Similarities in bids result from bids having been prepared by the same person (i.e., the agent in this case). It is common for collusive bidders to submit bids that were clearly much inferior to those of the bid winner, i.e., they had a clear “bid to lose” intention. These errors or omissions were intended to give the appearance of competition. Eventually, these “dummy” bids are expected to be disqualified from initial screening or assessment.



Source: ADB (OAI).



Scheme: Fraudulent Practice

A fraudulent practice is any action or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation. Fraudulent practices by bidders may lead to awarding of contracts to ineligible or unqualified bidders and adversely impact project delivery. The common types of fraudulent practice found in the bidding subprocess, discussed below, are (i) rigged specifications, (ii) false statements and claims, and (iii) phantom vendors.

Rigged specifications. Bid requirements can contain specifications that are tailored to meet the qualifications of a particular bidder or supplier in order to defeat the competitive process. Specifications can be too narrow to exclude other qualified bidders or to justify sole source awards and avoid competition altogether. Specifications that are too vague or general can allow a favored but unqualified bidder to compete, or to justify contract amendments and change orders after contract is awarded.

Red Flags of Rigged Specifications. PIRs identified the following common indicators:

- ▶ Specifications are significantly narrow or broad, for example,
 - ▷ The technical specifications in four sample contracts included descriptions that were exactly the same as some particular brands of equipment. They included the countries of origin, without the words “or equivalent” to signify that that the specifications were meant to be descriptive and not restrictive.
 - ▷ In a bid for a copier, the technical specifications were not clearly defined in the bidding documents, hence, bidders proposed copiers with different capacities.
 - ▷ Ambivalent terms such as “Best Quality”, “Superior Quality”, “Foreign Made”, and “Local Made” were used to describe specifications of materials for works in the bid documents. These were not specific enough to ensure quality of materials is of an adequate standard.
- ▶ Specifications use brand name rather than generic description
- ▶ Similarity between specifications and winning vendor’s product
- ▶ Only one or a few bidders respond to request for bids, for example,
 - ▷ The bid invitation for procurement of a drainage equipment through international competitive bidding used a specific brand name in the technical specifications, which was identifiable to the winning bidder. The winning bidder was also the sole participating bidder for this bid.
- ▶ High number of competitive awards to one supplier, for example,
 - ▷ The project liaison office purchased 17 pickup trucks for the project in 3 batches from the same bidder. The bid specifications appeared to be unnecessarily narrow, which may have excluded the other qualified bidder with better prices and reduced competition.



False Statements. To be fraudulent, false statements (or misrepresentations) must be made knowingly or recklessly to mislead. The statement must have the potential to affect the decision of the bid evaluation committee (BEC).

Red Flags of False Statements. Contractors, consultants, and suppliers have ample opportunities to benefit from false statements throughout the procurement process. These may include contractor qualifications, certifications, falsified records, false bid, and performance bonds. Common indicators of false statements identified by PIRs are presented below. Box 4 provides case studies of false statements.

- ▶ Discrepancies between information in bid forms and supporting documentation where erroneous entries in the bid forms may have been intentionally made to meet bid requirements. For example,
 - ▷ Three bidders indicated in their submissions of bid form for litigations that they were not involved in ongoing legal disputes, contrary to the disclosures in their respective audited financial statements.
 - ▷ A member of a consortium submitted the bid form on financial capacity with higher cash and cash equivalents (\$869 million) than those included in its audited financial statements (\$631 million).
- ▶ Inadequate or altered supporting documentation, for example,
 - ▷ In one district, documentation in two bids appeared to be photocopies of information from one competitor's bid documents.
- ▶ The bid securities of two bidders for a civil works package appeared falsified: (i) Bidder A's bid security had several spelling errors, issuing bank's logo was heavily distorted, and bid security was not signed but just stamped by a bank official; and (ii) Bidder B's bid security was not dated and missed a bid security number.
- ▶ Unreasonable statements, for example,
 - ▷ The curriculum vitae of five of the seven proposed personnel for different posts of the winning bidder in a bridge construction contract indicated the same 22 years of experience which was rather unusual. Also, the periods of employment with prior employers were not indicated in the curricula vitae of the proposed staff, which raised concerns on work experiences.
 - ▷ In one of the bids, while the proposed contractor's personnel's curriculum vitae indicated his date of birth, validation of information between the curriculum vitae and the date of issuance of the degree certificate indicated that the proposed personnel entered engineering college at age 14 and graduated at age 18.



Phantom vendors. Fictitious vendors can be created by project personnel with poorly controlled or supervised procurement responsibilities in order to embezzle project funds. Contractors may also set up phantom vendors to submit complementary bids in collusive bidding schemes.⁹

The PIRs noted that bidders submitted incorrect or nonexistent addresses or phone numbers, which is a red flag of phantom vendors. For example, in a civil works contract in District M, the winning bidder's contact details pertained to that of a savings bank. The PIR team was advised during a visit to the office address that no such contractor was located in the specified address.

Red Flags of Collusive and Fraudulent Practice in Bidding in Decentralized Projects.

PIRs recognize the challenges faced by the project teams in implementing decentralized projects in areas which are remote, geographically dispersed, and where there are numerous smaller-sized civil works subprojects but with inadequate number of capable contractors. These types of projects are highly susceptible to fraud and corruption. The red flags of both collusive and fraudulent practices by bidders in a decentralized project noted by a PIR are exemplified in the case study in Box 5.



⁹ Complementary bids, also known as "protective" or "shadow" bids, are intended to give the appearance of genuine bidding to secure the bid evaluation committee's acceptance.

Box 4: Case Studies on Red Flags of False Statements

Case Study 4A: Discrepancies Between Information in Bid Forms and Inspection Reports

The proactive integrity review (PIR) found irregularities in Firm A's bid for the supply and delivery of a construction material. In particular, the irregularity concerned a manufacturer's authorization letter stating that the bidder was an authorized dealer for the sale of the machine-made construction material. When contacted by the PIR team to confirm the authenticity of the authorization letter, the manufacturer firm's managing director (signatory of the authorization letter) denied issuing the letter to the bidder.

The Office of Anticorruption and Integrity (OAI) found that the firm and its two directors engaged in fraudulent practice by submitting a falsified manufacturer's authorization letter in its bid for the supply and delivery of a construction material. The manufacturer firm that supposedly issued the authorization letter has, on two occasions, indicated that the letter was false.

OAI also found that the nonresponsiveness of Firm A and its representatives, as well as the firm's refusal to receive OAI's findings letter were indications that the firm was aware of OAI's investigation and deliberately chose not to communicate or cooperate.

ADB sanctioned the firm and its two directors.

Case Study 4B: Discrepancies Between Information in Bid Forms and those in the Supporting Documents

A joint venture member firm of the winning bidder for a \$25 million civil works contract submitted financial information in the bid form that was inconsistent with the firm's 2-year financial statements. Significantly, while the financial statements for year 2 of the joint venture member firm indicated that the firm was in a negative net worth position, the bid form indicated a positive net worth position on the same date. Overall, the bid form significantly overstated the joint venture member firm's financial health. Furthermore, the firm's financial statements were not accompanied by an audit certification. This was contrary to the ticked box in the bid form that stated, among others, that full financial

statements for the last 3 years were attached and audited by a certified accountant. This was a misrepresentation.

OAI found that the firm and its two previous chief executive officers (CEO) engaged in fraudulent practices by misrepresenting the firm's financial position and making false certifications, in the preparation and submission of bidding documents.

ADB sanctioned the firm and its 2 previous CEOs. OAI issued a caution letter to the lead firm that received and included the joint venture member firm's bid forms and associated bid documents for a contract under an ADB-financed project.

Case Study 4C: Discrepancies Between Information in Bid Forms and Observed Data

The winning bidder of a contract misrepresented its financial information by submitting financial statements opined by unregistered chartered accountants and that the bidder may have colluded with the executing agency.

OAI established that the proprietor of the firm falsified seven audit reports submitted in bids for two contracts under two ADB loans, colluded with government officials to manufacture falsified work orders and work completion certificates, and obstructed OAI's investigation by untruthfully responding to initial inquiries and failing to respond to subsequent communications.

ADB sanctioned the firm and its proprietor.

TAKEAWAY

Without adequate due diligence of the information provided by bidders in documents, the bid evaluation committee may fail to identify irregularities, and/or misrepresentation by bidders. This may result in awarding of contracts to unqualified bidders, and adversely impact project delivery results. Project teams should emphasize the importance of critical assessment of bid submissions, and to report to OAI suspected allegations of integrity violations.



Source: ADB (OAI).

Box 5: Case Study on Red Flags of Collusive and Fraudulent Practices in a Decentralized Project

A proactive integrity review (PIR) observed that in the procurement of dental equipment for 15 health centers: (i) price schedules, delivery schedule, price proposal, technical proposal, and technical specification of five bidders were almost identical and appeared to be from the same template file; and (ii) bid prices were extremely close to each other. These indicated that collusion among bidders may have occurred.

OAI found that the winning bidder (Firm A) and one of the losing bidders [local partner of joint venture Firm C] colluded in the preparation of phantom bids in the name of other bidders (Firms B, D, and E) without their consent. These bids included falsified manufacturer authorizations and bank guarantees.

The PIR identified that the bid guarantees of the four losing bids (i.e., Firms B, C, D, and E) were identical in language, wording, layout, and font. The only differences were the reference numbers, dates, and company names; but even the reference numbers were of the same structure. In contrast, the guarantee submitted by Firm A was in English, had a different layout, and reference number format.

Firm A and local partner of joint venture Firm C shared the same address and phone and fax lines. Background checks revealed they shared the same ownership.

All four losing bids included false guarantees from Bank L, which, during request for authentication confirmed not having issued the bank guarantees. Only Firm A submitted an authentic bank guarantee.

Three losing bidders (Firms B, C, and E) submitted falsified manufacturer authorizations, which had similarities in layout and format, with the same errors in punctuation and spacing as those submitted by Firm A. The firms that supposedly issued the manufacturer authorizations confirmed that they did not issue nor sign the authorizations, and they were not manufacturers of the products stated in the authorizations.

The inquiry findings letters to two losing bidders (Firms D and E) could not be delivered and were returned, thus supporting the nonexistence of the companies as per the results of the background checks. The foreign partner of joint venture Firm C denied having participated in the tender and stated to never have dealt in dental equipment. The said joint venture partner affirmed that the letterhead used in the bid was theirs, but that they did not issue the documents, and that the signature and title in the bid documents of the alleged signatory, were not his. They added that they had no dealings with the local joint venture partner or any of the other bidders.

OAI concluded that Firm A and the local partner of joint venture Firm C colluded to fabricate the losing bids in the name of nonexistent bidders and in the name of a bidder without its consent, as in the case of the foreign partner of joint venture Firm C. Both firms falsified manufacturer authorizations and bank guarantees, to manipulate the bidding process, which eventually led to the award of the contract to Bidder A.

Firm A, the local partner of joint venture Firm C, and four individuals were sanctioned by ADB.

TAKEAWAYS

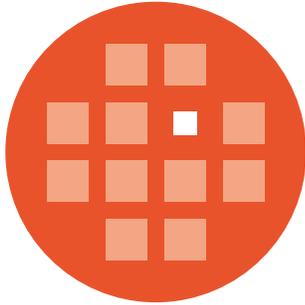


- Collusive bidding among suppliers and contractors limit competition. In the case study, these were detected through similarities in bids; apparent connections between bidders; and possible use of phantom bidders. As a result of collusive bidding, business opportunities are unfairly directed to colluding participants who may charge higher contract prices. Exercising due diligence on submitted bids is critically important before any contract is awarded.
- The case study also includes misrepresentations of bank guarantees and manufacturer authorizations. Integrity violations result in the project paying higher costs with potentially poorer quality of goods procured and works performed.

Source: ADB (OAI).

Procurement: BID EVALUATION

Undetected red flags of fraud and corruption during bid evaluation may create the impression of favoring bidders, and result in awarding contracts to unqualified bidders, undermining the transparency and fairness of procurement. This section highlights the common fraudulent practices noted by PIRs during bid evaluation.



Scheme: Bid Manipulation

Bid manipulation can take place if bidding is poorly controlled and procurement personnel can tamper with bids after receipt to ensure that a favored bidder is selected. This may result in awarding contracts to the bidders that may not be the most technically responsive or financially lowest bidders.



Red Flags of Bid Manipulation. PIRs detected common indicators of bid manipulation shown below. To further illustrate, sample case studies are depicted in Box 6.

- ▶ A qualified bidder was disqualified for questionable reasons, for example,
 - ▷ Some bidders met the technical qualifications requirements with adequate documentary evidence, yet they were disqualified. For example, some bidders were rejected because of weak financial capacity, although their bank balance was equal to or higher than required. Others were rejected because no credentials were attached to their bids, when these credentials were available.
- ▶ Award of a contract to a nonresponsive bidder, for example,
 - ▷ In a bid for an office equipment, the required technical specifications for computers indicated Pentium IV microprocessor but the contract was awarded to a bidder who proposed computers with Celeron microprocessor, which was slower in processing speed compared to Pentium IV.
 - ▷ For a road construction contract, the bid evaluation committee (BEC) declared a winning bidder as compliant with the experience requirement even though the bidder's experience related to building construction instead of road construction. The experience cited by the bidder was the construction of a three-level multistoried car park and the winding driveway inside the car park. This work experience was inadequate for the large-scheme road construction contract being bid out.
- ▶ For a civil works contract, evaluation of compliance to cash flow requirements of the winning bidder was solely based on the line of credit instead of the cash flow criterion in the bidding document. The bidder had negative available working capital and negative cash flow. Thus, the bidder had no financial capacity to meet its current commitments and the cash requirements for the contract.
- ▶ Acceptance of bids with invalid bid securities, for example,
 - ▷ Bids, including those of the winning bidders were accepted, although they were ineligible based on their invalid bid securities. Some of the bid securities expired on the date of the bid opening.
- ▶ Inaccurate bid evaluation reports, for example,
 - ▷ Two versions of the bid evaluation report (BER) were submitted by the PMU to ADB. The first version recommended Bidder B as the lowest evaluated bidder whereas the second version recommended Bidder A as the lowest substantially responsive bidder. The second and final BER was submitted to ADB (i) with conflicting conclusion—Bidder B was the lowest substantially responsive bidder, however the recommendation was to award the contract to Bidder A, (ii) without consulting the supervision consultant, who was a BEC member, on the changes, and (iii) with the identical BEC's signature page from the first BER.
- ▶ Inconsistent application of bid evaluation criteria, for example,

- ▷ The technically qualified and financially lowest bid was rejected due to lack of justification on the discount. However, the similar discount letter was accepted by the BEC in another bid package.
 - ▷ A bidder submitted an incomplete form where current contract commitments were declared. The BEC treated this a major deviation despite the advice of the evaluation consultant to seek clarifications from the bidder. However, the BEC did not treat this as major deviation for another bidder that submitted an incomplete current contract commitments form.
- ▶ Bids are lost, for example,
 - ▷ At the executing agency or district PIU level, there were no procurement documents provided for review to support the bid evaluation report for any of its contracts issued under the project. For these contracts, neither corresponding feasibility studies nor bid attendance records were found. This was exacerbated by the fact that the bidding took place 1 year before the bid evaluation reports were submitted to ADB.

Box 6: Case Studies on Red Flags of Bid Manipulation

Case Study 6A: Contract Awarded to an Unqualified Bidder

The contract for the construction of a divisional forestry office in one of the districts was awarded to a bidder that had an invalid bid security and was not the lowest priced. Three days after contract award, a variation order was issued which increased the contract amount and changed the contract duration to 3 days only. Two days later, full payment was made to the contractor.

The PIR inspection a year later found that the work was incomplete. Water tanks and floor tiles were substituted with lower cost and lower grade items, which were not in accordance with specifications. No actions were taken against the contractor for substandard and noncompletion of work.

TAKEAWAY

The extent of the irregularities above (bid manipulation) signifies the involvement of project officials and personnel in prearranging the bid winner (collusion). This is especially true in the case of biased bid assessment, where the issuance of a highly irregular contract variation to shorten the duration so that immediate payment is received at the expense of the low-grade output. Integrity violations result in delivery of the substandard project output.



Case Study 6B: Manipulation of the Entire Procurement Exercise

A project included the conduct of an independent road safety audit of the detailed design of the main and access roads. The PIR noted that the process for recruitment of two individual consultants for the road safety audit was highly irregular. The BER submitted to ADB was not factual.

The BER misrepresented that there was competition when in fact, the consultants were already selected and deployed. The BER was submitted to ADB for prior review about 2 weeks after the contract was signed without ADB's knowledge. A copy of the signed contract was only submitted to ADB at the time when the executing agency submitted the withdrawal application pertaining to the consultant's invoice, which was 8 months after contract signing.

The Office of Anticorruption and Integrity recommended that the contract should not be funded by ADB, and for ADB to seek refund from the loan funds.

TAKEAWAY

A conflict of interest is not always avoidable, and where identified should be adequately managed. The mere appearance of impropriety should be avoided. All parties in this case must recognize that a conflict-of-interest situation was created. They must recognize and manage project processes to avoid such situations, so that advice received and actions taken for the project are as objective and transparent as possible.





Scheme: Unbalanced Bidding

Under this scheme, a bidder—typically in collusion with procurement personnel—becomes aware that some items in the bid are not required for the contract performance.

Red Flags of Unbalanced Bidding. Indicators of unbalanced bidding found by PIRs are shown below. A case study is depicted in Box 7.

- ▶ Particular line item bids in the bill of quantity appear to be unreasonably low
- ▶ Particular line item bids do not appear to have been performed or purchased as specified in the contract



Box 7: Case Study on Red Flags of Unbalanced Bidding

The proactive integrity review (PIR) found that in one of the road contracts awarded to the lowest responsive bidder, the line items specifically for road drains in the civil works contract bill of quantities (BOQ) were significantly low. The bidder quoted only 10% of engineer's estimate per cubic meter, resulting in the bidder becoming the lowest priced bidder. The contractor may have quoted unreasonably low prices on these line items in order to be the lowest priced bidder to win the contract.

The PIR inspection team noted that while the contract was declared as completed, the contractor never progressed on the side drains and had no plan to complete the works. Nothing was done to ensure that the road drains were constructed. The contractor

selectively performed the works that were more profitable to them and intentionally left the low-priced works undone, leading to a significant project loss.

TAKEAWAY

Two red flags of unbalanced bidding appeared in this case study. The outcome of unbalanced bidding is the selection of a favored bidder that was not the most technically responsive and financially lowest bidder. This irregularity also indicates the involvement of the supervision entities that allowed the contractor not to perform the lowest priced BOQ line item, collect the money, and leave the project uncompleted.



Source: ADB (OAI).

Undetected red flags of integrity violations in procurement may result in unsuccessful delivery of project output, waste of project funds, and loss of intended benefits for the beneficiaries. Box 8 presents a case study on the impact of the red flags in procurement to the project output.

Box 8: Case Study on Red Flags in Procurement Leading to the Poor Project Output of a Civil Works Contract of a Road Network Project

The proactive integrity review noted irregularities in the evaluation of bid submissions for two contract packages amounting to a total of about \$250 million under a large-scale project awarded to the same contractor.

The winning bidder:

- a. understated its ongoing contracts in its submission because the bidder did not disclose all pending contracts. Based on the audited financial statements supporting the bidder's bid submissions, the bidder's outstanding construction contracts submitted was grossly understated by about \$10 billion. The bid evaluation committee (BEC) did not seek clarifications and accepted the bidder's submission. Understated contract commitments created the appearance of a higher cash flow and presented a favorable financial capacity. The winning bidder for the contract packages may not have been financially qualified.
- b. did not declare any pending litigation in its bid submission as required for the BEC to determine if total amount of pending litigations, did not exceed 50% of the applicant's net worth. This was inaccurate as the bidder's audited financial statements accompanying "Notes to Financial Statements" disclosed that for 2 years, the firm was a defendant in 29 lawsuits involving claims of approximately \$38 million, and 47 lawsuits of approximately \$33 million. While these pending litigations did not exceed 50% of the contractor's net worth, nondisclosure thereof was not taken into consideration by the BEC, which was an indication of inadequate due diligence when examining bid submissions.
- c. did not declare any need for subcontractor in its bid submissions but instead raised the need for subcontractors only during the negotiation stage. The contractor's failure to declare the need for subcontractors in its bid proposal prevented the BEC from directly assessing and evaluating the capacity of the proposed subcontractors. The contractor may not have had the financial capacity to meet the requirements of the contract,

and hence, used subcontractors at a lower price for certain subcomponents of the works.

Impact of questionable evaluation process in the delivery of output.

The impact of questionable evaluation process (i.e., questionable contract commitments; non-declaration by contractor of its need for subcontractors during bid submission; and capacity issues of subcontractors) started to surface at the early stages of construction and continued causing prolonged delays. At the time of the PIR asset inspection, works for packages A and B were stalled for over a year as, among others, the contractor was not able to pay the subcontractors. While nonpayment by the contractor to the subcontractors was a contractual issue between both parties, it affected the project's implementation progress.

TAKEAWAYS



- For a road network project, failure of one or more sections will have a significant impact on the completion and successful operation of the entire road network.
- Understated contract commitments give the appearance of higher cash flow and present a favorable financial capacity. The winning bidder in the case study may not have been financially qualified as confirmed by the contractor's inability to pay the subcontractors, among others.
- A bidder without pending litigation has better credibility. Non-declaration of pending litigation is misrepresentation.
- Appropriate due diligence by the BEC of bid submissions is crucial to ensure that contracts are awarded only to the technically and financially qualified bidders.

Source: ADB (OAI).

CHECKLIST—How to Spot Red Flags During Procurement

The checklist is intended to be used only as a guide. Responses should be based on relevant documents/information relating to the process of each contract reviewed. Not all questions will be relevant to all contracts but all the “yes” responses can be used to seek clarifications from concerned parties. Additional review, analysis, and professional judgment are encouraged.

QUESTION	YES	NO	REMARKS
1. Is the bidder or any party to the joint venture/association/consortium agreement in the ADB complete sanctions list?	<input type="checkbox"/>	<input type="checkbox"/>	
2. Did the invitation for bid provide unrealistic timeframe for bidders to prepare and submit bids? Please note that timing may be impacted by holidays, elections, natural disasters, etc. <ul style="list-style-type: none"> • Did the short response time to submit bids limit the participation of other potentially qualified bidders? 	<input type="checkbox"/>	<input type="checkbox"/>	
3. Was there unjustified extension of bid submission deadline?	<input type="checkbox"/>	<input type="checkbox"/>	
4. Were any of the bidders involved in compiling and processing bid documents including cost estimates which would give them an unfair advantage in the bidding process?	<input type="checkbox"/>	<input type="checkbox"/>	
5. Check the technical specifications in the bid document. <ul style="list-style-type: none"> a. Were brand names of materials/goods instead of generic descriptions used? b. Were specifications too narrow, not clearly defined, or too broad (e.g., use of “best quality”, “superior quality”, “foreign made”, “local made”) to describe materials/goods? c. Were the descriptions of the product similar to that of the winning bidder’s product? 	<input type="checkbox"/>	<input type="checkbox"/>	
6. Verify the bid sales register and bid submission register. <ul style="list-style-type: none"> a. Were there only a few bidders that submitted bids out of a number of bidders that purchased documents? b. For an advertisement made for several civil works packages (e.g., in lots), were there instances when only one bidder submitted a bid for each lot and won the contract? c. Were there many late bid submissions and hence, disqualified? <ul style="list-style-type: none"> • Was there any indication that the bid was intentionally submitted late to make it appear there was competition and ensure awarding of the contract to a preferred bidder (i.e., bid to lose)? d. Were there instances when bids received were less than the minimum of 3 required and were not retendered? <ul style="list-style-type: none"> • If yes, was the reason for non-retendering unjustified? 	<input type="checkbox"/>	<input type="checkbox"/>	
7. Extract the bidders’ profiles from the bid submissions. <ul style="list-style-type: none"> a. Are there bidders with similarities in addresses, phone numbers, facsimile numbers, email addresses, websites, shareholders, directors, officers, representatives, and affixed signatures in the bids? b. Are there bids with no bidder’s telephone number and business address? 	<input type="checkbox"/>	<input type="checkbox"/>	
8. Validate bidder’s telephone number and business address. <ul style="list-style-type: none"> a. Are there inconsistencies in the area codes of a bidder’s telephone number and business address? b. Are the telephone number and/or business address nonexistent? c. Are the telephone number and/or business address not of the bidder’s? 	<input type="checkbox"/>	<input type="checkbox"/>	
9. Compare and observe the “look and feel” of the bid submissions and covering letters. Are there similarities in design, logo, layout, content, font, wording, spelling/grammar/typographical errors?	<input type="checkbox"/>	<input type="checkbox"/>	
10. Compare the bid submission register and bid opening record. Were there a number of bidders abnormally absent during the bid opening?	<input type="checkbox"/>	<input type="checkbox"/>	
11. Verify the bid securities submitted by bidders. <ul style="list-style-type: none"> a. Were there bid securities issued by the same bank and in sequential numbers? b. Were there bids with invalid bid securities but still evaluated? c. For bids disqualified due to invalid bid securities, are there indications that these were intentionally submitted as invalid to make it appear there was competition and to ensure award of a contract to a preferred bidder? d. Was there a bid security that carried an unusual or different bank logo? e. Was there a bid security that had a nonexistent issuing bank branch address (e.g., from Google or some other check)? 	<input type="checkbox"/>	<input type="checkbox"/>	

QUESTION	YES	NO	REMARKS
12. Compare Priced Schedule for Goods/Priced Bill of Quantities for Works submitted by bidders, including cost estimates.	<input type="checkbox"/>	<input type="checkbox"/>	
a. Are there similarities in bidders' line item prices with those in the cost estimates?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Are there a number of identical line item bid prices among bidders?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Are there line items among bidders with different prices but with common percentage difference?	<input type="checkbox"/>	<input type="checkbox"/>	
d. Are there instances where bidders' prices especially for complex set of requirements are either very close to each other or vastly far apart?	<input type="checkbox"/>	<input type="checkbox"/>	
e. Are there instances where the winning bidder's unit rates are substantially higher than cost estimates (i) for items of work to be substantially performed early in the contract or (ii) to compensate for underestimated quantities for certain items of work?	<input type="checkbox"/>	<input type="checkbox"/>	
13. Compare human resources and equipment submitted by bidders.	<input type="checkbox"/>	<input type="checkbox"/>	
a. Are there identical names of personnel proposed by bidders?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, are there discrepancies in the personnel's profile, qualifications and/or experience in their respective CVs submitted by the bidders?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Is there any identical information of equipment proposed by bidders (e.g., serial numbers)?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, are there discrepancies in the supporting documentation relating to the equipment submitted by the bidders?	<input type="checkbox"/>	<input type="checkbox"/>	
14. Validate information in the financial related bid forms vis-à-vis supporting documents. Are there discrepancies in amounts stated in the bid forms against those in the bidder's audited financial statements and notes to financial statements, as applicable for the following:	<input type="checkbox"/>	<input type="checkbox"/>	
a. Construction Turnover	<input type="checkbox"/>	<input type="checkbox"/>	
b. Working Capital (Current Assets–Current Liabilities)	<input type="checkbox"/>	<input type="checkbox"/>	
c. Net Worth (Asset–Liabilities)	<input type="checkbox"/>	<input type="checkbox"/>	
d. Current Contract Commitments	<input type="checkbox"/>	<input type="checkbox"/>	
e. Pending Litigation	<input type="checkbox"/>	<input type="checkbox"/>	
15. Validate information in the bid form relating to bidder's experience vis-à-vis supporting documents, i.e., work completion certificates (for works), curricula vitae (for experts). Are there noted discrepancies/irregularities?	<input type="checkbox"/>	<input type="checkbox"/>	
16. Verify audited financial statements submitted by bidders.	<input type="checkbox"/>	<input type="checkbox"/>	
a. Are there irregularities in the audited financial statements, e.g., balance sheet with unbalanced accounts, asset account lodged under liabilities account.	<input type="checkbox"/>	<input type="checkbox"/>	
b. Were there bids with negative net worth, negative working capital that were considered responsive?	<input type="checkbox"/>	<input type="checkbox"/>	
17. Based on results of validation in items 15-16 above, are any of these noted discrepancies/irregularities present in the winning bidder's submissions?	<input type="checkbox"/>	<input type="checkbox"/>	
18. Validate bid evaluation reports vis-à-vis bid submissions.	<input type="checkbox"/>	<input type="checkbox"/>	
a. Were there unjustified reasons for rejection of bidders?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Were there instances of inconsistent treatment of deviations from the evaluation criteria among bidders?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Were there bids for certain contracts that were not made available or declared lost?	<input type="checkbox"/>	<input type="checkbox"/>	
d. Were there significant discrepancies in the bid evaluation reports, specifically in documenting the evaluation results?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, are there indications that the discrepancies noted were intentional to "paint a better picture" of the recommended winning bidder?	<input type="checkbox"/>	<input type="checkbox"/>	
19. Based on the listing of contracts awarded, was there a single firm winning a large number of contracts from its bids?	<input type="checkbox"/>	<input type="checkbox"/>	
20. Verify cost estimates against market prices and contract price of direct contracting procurement.	<input type="checkbox"/>	<input type="checkbox"/>	
a. Are cost estimates unreasonably and significantly higher than market prices?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Are contract prices significantly higher than cost estimates?	<input type="checkbox"/>	<input type="checkbox"/>	
c. For significantly high pricing of goods, is there an indication of an involvement of an agent or broker?	<input type="checkbox"/>	<input type="checkbox"/>	
d. Is there a single firm winning a number of contracts for direct contracting?	<input type="checkbox"/>	<input type="checkbox"/>	

Contract and Asset Management

OUTPUT MONITORING

Asset inspection in PIRs identified irregularities such as poor quality of works and project implementation delays. These may have been a result of unidentified integrity risks in the procurement process, where contracts were awarded to unqualified bidders and/or inadequate supervision of contract implementation. Robust project supervision is crucial to detect and promptly rectify these irregularities, and mitigate implementation delays, poor quality of works, and cost overruns. Executing and implementing agencies should ensure that contractors, consultants, and suppliers are adequately supervised and that any issues are timely addressed.



Scheme: Failure to Meet Contract Specifications

Contractors that intentionally fail to meet contract specifications and then misrepresent that they have met them commit fraud. The common types of this scheme entail the use of substandard materials, inferior quality parts and equipment, and other deliberate departures from contract requirements in order to increase profits or to comply with contract schedule. The repeated failure to meet contract specifications by contractors without consequences or corrective action by the executing agency might indicate corruption.

Red Flags of Failure to Meet Contract Specifications.

PIR asset inspection team observed indicators of contractors' failure to meet contract specifications, which compromised project outputs. These red flags and common examples from PIRs are presented below. Case studies on compromised project outputs are depicted in Box 9.

- ▶ Discrepancy between test and inspection results and contract claims and specifications, for example,
 - ▷ The testing results of soil compaction for five civil works packages showed that the overall soil samples were below the standard compaction rate of K=95%. The results also established that in terms of proportionate distribution to specific packages, the highest average incidence of deviation was noted in three packages (75%), (67%), and (33%). The average incidence of deviation in the fourth package was relatively lower at 14%.
- ▶ Low quality, poor performance, for example,
 - ▷ The medical equipment installed at a district

hospital was not operational because the associated pipeline was improperly installed.

- ▷ Public wash basins and public toilets were not connected to a water supply source.
- ▷ In a rehabilitation of transmission link subproject (i) a circuit breaker installed in the line had some leakage which needed repair before energizing the substation; (ii) cabling plates were fixed with cotton thread instead of steel wire therefore, labels and markings were missing; (iii) VHF radio telecommunication system was not working; (iv) relays were not protected from the dust; and (v) civil works of control rooms and office building were of poor/low quality, cracks appeared on many places, plaster and floors were substandard.
- ▶ Absent or inadequate test or inspection documentation/reports, for example,
 - ▷ Of the 60 wells constructed in one of the districts, only 10 were tested by the relevant



district government unit to establish water quality, while in another district, none of the 97 wells have been tested.

- ▷ Insufficient independent laboratory tests for high-density polyethylene pipes and other components for conveying water for human consumption.
- ▷ The supervision consultant accepted the pipes for installation based on the manufacturer's certifications, without carrying out independent material test prior to delivery in the project site, as required. The pipes were considered substandard by the material test conducted after delivery.
- ▷ There was no engineer approval of sample material used before and after execution of works. As such, there was no assurance that materials used were of acceptable quality.

- ▶ Absent or inadequate supporting documents from contractor, for example,
 - ▷ The contractor did not subject all installed pipes for pressure test. Only 8.5% of the total installed pipes were tested. The issued test reports did not identify which pipes were tested and compliant to the requirements.
 - ▷ There were no test reports on whether the gabion wires and geo textile materials purchased conformed to the technical specifications as required by the bidding document. Payments were made without these test reports, which was a requirement for disbursements. There was therefore no assurance that the materials supplied met the technical specifications.
 - ▷ There were no "As Built" drawings prepared by contractors as required by the civil works contracts.

Box 9: Case Studies on Compromised Project Outputs

Case 9: Factors that Led the Project Vulnerable to Unsuccessful Delivery of Output

A proactive integrity review (PIR) disclosed red flags and other deficiencies in the outputs of 10 subprojects, which may have been a result of inadequate project supervision and heightened vulnerability to integrity risks. The indicators of manipulation during bid evaluation ranged from improper bid examination and questionable bid evaluation results (i.e., questionable disqualification of losing bidders and improper evaluation of winning bidders) to inaccurate bid evaluation reports (BERs).

Procurement. Three bidders that participated in the tenders for two subprojects had bid validity periods short of the required 60 days, yet those bids were accepted.

Many BERs did not fully disclose relevant bid information or contained inaccurate assessment. This irregularity posed a significant risk to the project as ADB's "no objection" approval may have been given based on inaccurate BERs.

- In one subproject, two participating bidders registered exactly the same evaluation results, including noncompliance to relevant experience per "Qualification of Bidders" appended to the BER. However, the BER narratives indicated that one of these bidders was noted as technically responsive and the other was disqualified.

- In another subproject, one of the bidders was from a state entity but was not disqualified.
- In several subprojects, the BERs did not disclose how bids in consortium with other companies, including financial requirements were evaluated.

There were a number of cases where losing bidders may have been unfairly disqualified which suggest unfair competition during procurement process.

- In one subproject, there was no clear basis on the selection of the winning bidder as the bid evaluation committee's (BEC) justification for disqualifying the bidder offering the lowest price was that the bidder was already performing two subprojects and could no longer implement another subproject. This assessment was not supported as required by relevant computation demonstrating that the bidder's available resources were less than aggregate requirements of the ongoing contracts and the subject tender.
- In another subproject, one of the bidders was disqualified because it was in the "blacklist". However, the project monitoring unit could not identify the source of the "blacklist", neither could they disclose the party who imposed the sanction.
- A participating bidder for a subproject was disqualified on the ground of insufficient relevant experience. The bidder's bid presented several

projects in the relevant field. The BER did not elaborate on the reason for the deemed insufficiency.

- A consortium was disqualified in its bid for a subproject because financial statements were not consistent. However, the BER was not clear on the inconsistency.

There were instances when contracts were awarded to nonresponsive bidders.

- There was no evidence that the winning bidder for a subproject complied with the financial requirements of the bid as copies of its financial statements were not in its bid package. Also, the lead company of the consortium did not have relevant work experience, yet the bidder was considered compliant.
- In three subprojects, the winning bidders submitted financial statements for 1 year only, and not for the last 3 years as required by the bid documents.

Output monitoring. The executing agency did not engage an independent technical supervising consultant as required by the project. The executing agency instead performed the tasks of the technical supervising consultant. Lack of an external technical supervision consultant contributed to the inadequacy of design, substandard quality, and irregularities in the civil works subprojects.

Without the external project supervision consultant, project designs were not reviewed prior to implementation. As a result: (i) in 90% of the subprojects inspected, the working designs of the daily regulation reservoirs, water intake chambers and maintenance holes did not ensure hermeticity of the system. Simple pipe and cast-iron maintenance holes were installed instead of air filters and hermetic maintenance holes, as required by established standards for drinking water systems; (ii) in the water intake site of a subproject, the design did not provide for a drainage system which should have been installed to protect the chlorination station and water collectors from dirty ground water; and (iii) the design of another subproject did not take into account the growth of the population in the next few years. The population had grown three-fold at the time of PIR inspection and the subproject was insufficient to serve the community's water needs. Water supply was erratic and unstable.

There were quality issues found in the subprojects inspected: (i) 90% had quality issues such as leakages and substandard works, attributed to very weak supervision by the executing agencies, poor workmanship, substandard quality of works and installed equipment, and deviations from specifications by the

contractors; (ii) 60% had leakages in various locations such as damaged pipes, connecting points of regulating valves, supply pits, reinforcement in the pits, and pump gaskets; and (iii) repainting and repairs were poorly done on the guard houses and drainage of two subprojects.

Contractors were paid for works that were incomplete and off-specifications as follows: (i) 50% of the subprojects inspected had no grasses to protect the daily regulation reservoirs from eroding, as required by the designs. Grass seeding was included in the contract's bill of quantities and the contractors had already been paid for this scope of work; (ii) contrary to the design specifications of a subproject (a) the floor of the building in the water intake site was not covered with linoleum; (b) its upper walls were made of wood rather than reinforced concrete; and (c) the fence of the sanitary protection zone was made of steel bars instead of concrete rods or posts; (iii) in another subproject, regulating valves were not installed in the inspection pit of one of the pumps, and the well was not provided with a housing as required by the design; (iv) in one subproject, the contractor did not insulate inspection pits with clay, resulting in water seepage into the pits; and (v) in the water intake site of a subproject, the required 30-meter radius sanitary protection zone was not complied with.

TAKEAWAYS



- Compromised procurement process leads to awarding of contracts to bidders who are not technically or financially qualified. As a result, these nonqualified contractors will deliver low quality or incomplete work, use substandard material, and cause implementation delays.
- Weak project management and inadequate supervision may significantly impair the project performance and quality of project outputs as defects will not be detected and rectified immediately.
- The infiltration of integrity violations in project implementation will impact the sustainability of the project in the long term.



Checking civil works. It is essential to observe, as part of random inspection, some auxiliary works on the reinforcement of the slope stabilization for an energy project in Bhutan (photo by proactive integrity review team).

CHECKLIST—How to Spot Red Flags During **Output Monitoring**

The checklist is intended to be used only as a guide. Responses should be based on relevant documents/information relating to the process of each contract reviewed. Not all questions will be relevant to all contracts but all the “yes” responses can be used to seek clarifications from concerned parties. Additional review, analysis, and professional judgment are encouraged.

QUESTION	YES	NO	REMARKS
Site Visit (Ocular Inspection)			
Take photos as necessary and use geotagging if device is capable	<input type="checkbox"/>	<input type="checkbox"/>	
Civil Works			
1. Did the project output physically exist?	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is the project output in a location other than specified in the contract?	<input type="checkbox"/>	<input type="checkbox"/>	
3. Based on measurements of length, thickness, and width (as applicable), are there discrepancies between the actual measurements vis-à-vis the contract specifications? If yes:	<input type="checkbox"/>	<input type="checkbox"/>	
a. Are these discrepancies without contract variations?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Is this a completed and fully paid contract?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Do the “As Built” drawings fail to specify actual measurements?	<input type="checkbox"/>	<input type="checkbox"/>	
4. Based on testing results of materials used, are there instances when materials used are not in accordance with contract specifications (bill of quantities)?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, are these off-specifications materials without contract variations?	<input type="checkbox"/>	<input type="checkbox"/>	
5. For works in progress, based on the quantity and capacity of equipment and labor on-site:			
a. Is the equipment of lesser quantity and capacity?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, has this significantly caused subproject delay?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Are less resources made available than required?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, has this significantly caused subproject delay?	<input type="checkbox"/>	<input type="checkbox"/>	
6. For works in progress, are subcontractors used contrary to the contract provision (i.e., the contract does not allow the use of subcontractors)?	<input type="checkbox"/>	<input type="checkbox"/>	
a. Was this carried out without the approval by the supervision consultants and the executing agency?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Was the use of subcontractors carried out without ADB’s approval?	<input type="checkbox"/>	<input type="checkbox"/>	
7. For works in progress, is on-site supervision inadequate? If yes:	<input type="checkbox"/>	<input type="checkbox"/>	
a. Was there inadequate inspection and inspection documentation/reports?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Were field visits by the supervision engineers infrequent?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Did the supervision engineers fail to conduct independent tests of materials as required?	<input type="checkbox"/>	<input type="checkbox"/>	
d. Did supervision engineers fail to enforce the requirement that a contractor submit test reports?	<input type="checkbox"/>	<input type="checkbox"/>	
e. Were there instances of low quality of works or poor performance by the contractor that were not detected in a timely manner?	<input type="checkbox"/>	<input type="checkbox"/>	
f. Was inadequate supervision one of the causes of subproject delay?	<input type="checkbox"/>	<input type="checkbox"/>	
8. For works in progress, has there been significant financial progress despite limited physical progress?	<input type="checkbox"/>	<input type="checkbox"/>	
9. For completed works, were there instances of low quality of works and defects in the output? If yes:	<input type="checkbox"/>	<input type="checkbox"/>	
a. Are the outputs off-specifications?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Were these certified as completed by the supervision consultants?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Did supervision consultants fail to conduct independent tests prior to certification?	<input type="checkbox"/>	<input type="checkbox"/>	
d. Were there reductions in the bill of quantity and use of substandard or lower quality materials in approved variations (e.g., use of thinner steel rods, reduction in the thickness of road causing uneven surface and omission of required road markings or road signs to reduce project costs)?	<input type="checkbox"/>	<input type="checkbox"/>	
e. Were there omitted works?	<input type="checkbox"/>	<input type="checkbox"/>	
f. Was this contract fully paid?	<input type="checkbox"/>	<input type="checkbox"/>	

QUESTION	YES	NO	REMARKS
10. Validate progress reports vis-à-vis ocular inspection of outputs. Are there significant inconsistencies in the information reported in the progress reports based on the ocular inspection? If yes:	<input type="checkbox"/>	<input type="checkbox"/>	
a. Did the progress reports not provide the actual progress and issues surrounding the project?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Were there significant delays in progress reporting to ADB?	<input type="checkbox"/>	<input type="checkbox"/>	

Goods

1. Is there an absence of monitoring reports (monthly/quarterly) for delivery of goods?	<input type="checkbox"/>	<input type="checkbox"/>	
2. If there are monitoring reports, were there instances of significant delay in status reporting?	<input type="checkbox"/>	<input type="checkbox"/>	
3. Were there unjustified delays on delivery of goods?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, were these unjustified delays approved?	<input type="checkbox"/>	<input type="checkbox"/>	
4. Has there been significant financial progress despite delays in delivery?	<input type="checkbox"/>	<input type="checkbox"/>	
5. Has full payment been made for undelivered goods as written in the monitoring report?	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is there an absence of inspection and/or acceptance reports?	<input type="checkbox"/>	<input type="checkbox"/>	
7. Based on inspection and/or acceptance reports:			
a. Were inspection and/or acceptance conducted by unqualified or inappropriate personnel?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Were there no actions taken on issues noted in the inspection reports?	<input type="checkbox"/>	<input type="checkbox"/>	
8. Based on inspection of delivered goods:			
a. Was there acceptance of substandard goods (take photos)?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Was there acceptance of a goods that were off-specifications (take photos)?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Were there goods that were not operational?	<input type="checkbox"/>	<input type="checkbox"/>	
• If yes, are these no longer within the warranty period?	<input type="checkbox"/>	<input type="checkbox"/>	
• If no longer within the warranty period, did these defects occur within the warranty period (but not acted upon)?	<input type="checkbox"/>	<input type="checkbox"/>	
d. Were there inaccurate details in the progress report in relation to the inspection of goods?	<input type="checkbox"/>	<input type="checkbox"/>	

Comments (For all “Yes” responses, analyze and document the results)

Please refer red flags, including documentation thereon to OAI for further verification.

Financial Management

EXPENDITURES MANAGEMENT

Vulnerabilities in expenditures management cast doubt on the project’s integrity and may result in financial loss, if not mitigated. Executing and implementing agencies should minimize the risk that payments are made for ineligible expenditures. Expenditures that are not within the contract terms or that are inadequately or inappropriately supported are considered ineligible. Poor internal controls and inadequate due diligence of documents supporting claims from project funds provide opportunities for fraud and expose the project to loss of funds.



Scheme: False, Inflated, and Duplicate Invoices

A contractor or supplier can commit fraud by knowingly submitting claims with false, inflated or duplicate invoices, either acting alone or in collusion with the executing and/or implementing agency personnel as a result of corruption. If not detected and mitigated, this may result in misappropriation and loss of project funds.

Red Flags of False, Inflated, and Duplicate Invoices.

PIRs disclosed indicators of false, inflated, and duplicate invoices in the review of disbursements of project funds, which are caused by collusion and/or fraudulent practice. The common red flags and examples from PIRs are shown below. Case studies on red flags of false, inflated, and duplicate invoices are presented in Box 10.

- ▶ Discrepancies between invoice, supporting documents, or project documentation, for example,
 - ▷ Contractors were substantially paid despite slow progress or for work that had not yet been carried out.
 - ▷ Claims for consultancy services were inconsistent with timesheets and/or other project documentation.
 - ▷ Claims for one district were claimed under another district.
 - ▷ Expenses relating to a civil works contract were claimed through an invoice of another contract. While both contracts had different contractors, these had the same authorized representative who signed the bills for both contracts.
 - ▷ The interim payment certificate of a drainage works contract was in the name of a contractor for another civil works contract.
- ▶ Invoice prices, amounts, item descriptions or terms exceed or do not match the contract terms, purchase order, receiving records, inventory or usage records, for example,
 - ▷ Claims for reimbursable expenses for consultancy contracts in a project frequently did not correspond (were in excess) with contract terms. These pertained to costs of vehicle operation and maintenance, computer and printer supplies, communication expenses, domestic travel, housing allowance, and training allowances.
- ▶ No receiving report for invoiced goods or services, for example,
 - ▷ Provincial project units’ expenses were not acknowledged by the payees.
- ▶ Inadequate, copied or apparently altered supporting documents, for example,
 - ▷ Electricity, communication, and travel expenses



of the provincial project units were not supported by original source documents.

- ▷ Details of billings in carbon copies were written in ink (i.e., not “carbon”-copied) and used as supporting documentation.
- ▷ Attendance lists supporting claims appeared to be photocopies or were tampered with.
- ▷ Line items (descriptions, quantities, dates, and/or values) in the billings were added, or otherwise changed.

- ▶ Multiple invoices with the same description of goods or services, amount, invoice number, purchase number, and date, for example,
 - ▷ The same expenses were claimed twice through separate withdrawal applications.
- ▶ Invoiced goods or services cannot be located or accounted for, for example,
 - ▷ Supplier was paid for an invoice in which a significant quantity of goods was not delivered.

Box 10: Case Studies on Red Flags of False, Inflated, and Duplicate Invoices

Case Study 10A: A Firm Misrepresented Claims for Training Activities in a Health Project

The proactive integrity review (PIR) identified red flags pertaining to activities in the contract for a community facilitator’s package under the project as follows:

(i) expert A whose fees for training services were charged to the project by the contractor under the contract was not recognized by 10 individual consultants interviewed on the field; (ii) individual consultant claims submitted by the contractor were not confirmed by individual consultants interviewed; or amounts received per participant were less than the per diem allowances claimed by the contractor; (iii) two airline tickets submitted to substantiate travel of workshop participants were allocated the same seat number for the same flight; (iv) two boarding passes were accompanied by airport tax stickers with the same reference number; (v) six boarding passes accompanied by airport tax stickers were sequentially numbered, but with a gap of 7 days between flights; and (vi) official receipts pertaining to two rental agreements for computer equipment did not agree with the agreements.

ADB’s Office of Anticorruption and Integrity (OAI) established that the contractor: (i) misrepresented that expert A provided training services under the contract to claim consultancy fees and (ii) misrepresented signatures/initials on receipts as those of named individuals in the project documents. The differences were sufficiently marked to cast doubt on the authenticity of the signatures and the receipt of the allowances. There were testimonies that participants received training allowances in a sealed envelope and were not required to sign any documents to confirm receipt of the amount. Instead, participants signed a payment/distribution list that did not contain the amount of allowances received;

(iii) manufactured airline tickets, boarding passes, and airport tax stickers to support reimbursable travel claims. The airline company responded to OAI that the tickets were not in accordance with their records, and provided comparative data for the passenger name, route, ticket issuance date, and fare; and (iv) manufactured rental agreements and official receipts to support reimbursable claims for rental of computer equipment.

ADB sanctioned the firm and its president.

TAKEAWAY

Making payments to contractors, consultants, and suppliers without reviewing supporting documents or performing due diligence on suspicious claims that are vulnerable to falsified, inflated or duplicate invoices may result in waste of project funds.



Case Study 10B: Firms Were Fully Paid for Incomplete Works

The PIR inspection of completed project outputs in two project sites for a water project disclosed that the construction of the reservoir should include seeding and planting of grass. However, the contractors for each of the sites failed to supply and plant perennial grass as required in their respective contracts. Both contractors billed the project for the unperformed work, which was evident in the project completion certificates issued by the executing agency.

OAI sought clarification from both firms that they may have misrepresented their billings by charging the unperformed grass seeding works to ADB project, but the firms did not respond.

ADB sanctioned both firms and their respective directors.

TAKEAWAY

Approval of claims for incomplete work signifies that (i) works were not inspected by the supervision entity to validate the claims submitted; or (ii) the supervision entity colluded with the contractor to ensure full payment. Without mitigating measures, this would increase the risk of misuse of project funds.



Case Study 10C: A Contractor with Slow Progress of Works Was Nevertheless Paid by the Executing Agency

The PIR engineer's field visits identified that work for civil works Contract B was slow, with estimated 10% physical completion. There was a lack of activity, and with limited equipment and personnel who were working on-site. It was evident that project delays were encountered, which if not mitigated would lead to further implementation delays, poor quality output, and waste of project funds.

The most recent monthly progress report submitted to ADB by the executing agency indicated that the actual overall progress of the works for the entire contract was 34.27% vis-à-vis the total planned progress of 56.15%. The PIR could not establish the basis for the calculation of the overall progress of works in the progress report.

About a month prior to the PIR inspection, 60% of the contract amount for Contract B was already disbursed. This was significantly higher compared to the PIR engineer's estimate of 10% physical completion during the site inspection. While a significant amount of payment was made for expensive materials in the bridges, physical progress was low at the time of asset inspection.

Given the severity of the issue, OAI recommended for the ADB regional department concerned to temporarily suspend disbursements to the contractor until actual physical progress becomes commensurate with the total disbursements.

Source: ADB (OAI).

TAKEAWAYS

- Substantial payments made that are not commensurate to the progress of works performed expose the project to risk of loss of project funds especially if the contractor further delays the works or at worst, abandons the works.
- Robust supervision of contractors/consultants/suppliers is essential to ensure that claims are approved and paid only for works/services/goods actually delivered.



Case Study 10D: Payment of Expenses Not Consistent with Contract Terms

The contract between the consultant and the executing agency provided that the consultant shall submit to the client (the executing agency), in duplicate, itemized statements, accompanied by copies of invoices, vouchers and other appropriate supporting materials, of the amounts payable for reimbursable expenses.

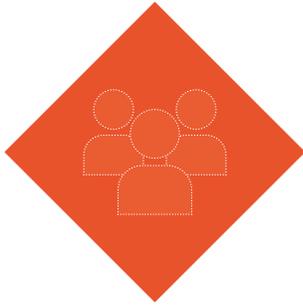
The PIR established that for 3 years prior to the PIR, reimbursable expenses for approximately \$900,000.00 were claimed by the consultant and paid in monthly lump sum and therefore unsubstantiated. These were out-of-pocket expenses representing local expenses for the driver, car maintenance and fuel charges, national travel, air travel, transportation to and from airport, accommodation cost, housing allowance paid, international communication at home office, home office support, and office operations.

There was no contract variation allowing the reimbursable expenses to be paid in lump sum; hence eligibility of these expenses for lump sum payments could not be appropriately established.

TAKEAWAY

Expenses which are not within the contract terms or unsubstantiated are considered ineligible and indicate that claims were not thoroughly reviewed vis-à-vis the contract provisions. The lack of thorough review of claims and unsupported expenditures heighten the opportunities for fraud resulting in potential loss of project funds.





Scheme: Phantom Vendors

An employee or contractor/consultant/supplier can create and authorize payments to a fictitious vendor in order to embezzle funds. Poorly controlled or supervised financial management responsibilities increase the risk of this type of fraud.

Red Flags of Phantom Vendors. The indicators of phantom vendors observed by PIRs in the review of project expenditures are shown below. A case study on red flags of phantom vendors is presented in Box 11.

- ▶ Invoiced goods or services cannot be located or verified, for example,
 - ▷ The PIR team were unable to verify the existence of a consulting firm’s four personnel, comprising three drivers and a training specialist, whose related expenses (including consultancy fees and reimbursable expenses) were claimed under an ADB project. The two drivers were not in the office and their locations could not be established. The other driver could not be recognized by the other consultants. The car for his job was purchased in May 20XX and delivered to the district in June 20XX, but claims associated with the driver were made prior to those months, in February to May 20XX. Ten trainers who participated in training activities did not remember the training specialist. There was the risk that these personnel either did not exist or did not perform duties that can be legitimately claimed from project funds.
- ▶ Invoice has an unusual or unprofessional appearance, for example,
 - ▷ The invoice appeared “doubtful,” i.e., undated and did not bear the monogram of the vendors, which normally appeared in a genuine invoice.



Box 11: Case Study on Red Flags of Phantom Vendors

In a forestry project, the proactive integrity review (PIR) noted that at least 26 contracts were executed by 11 divisional forestry offices (DFOs) for the purchase of gunny pots. The gunny pots were purportedly used to raise seedlings. Most of the procurement contracts for gunny pots were executed by Firm A, Firm B, and Firm C. Spot purchases of gunny pots from Firm A were also made by DFOs, although the vendor has no local presence. Previous research by the Forest Research Institute confirmed that gunny pots are not suitable to raise seedlings. Hence, polythene pots were purchased to raise seedlings but showed in the project accounting record as purchases of gunny pots. The purchase of polythene pots was “unofficial” and off-the-record.

The PIR disclosed that (i) only minimal gunny pots were identified during physical verification, and they were kept as “sample” only. Polythene pots were widely used in place of gunny pots. The price of polythene pots was

three to four times lower than gunny pots; (ii) documents in support of the spot purchases from Firm A appeared “doubtful” i.e., undated and did not bear the monogram of the vendors, which normally appeared in a genuine invoice; (iii) Firm A denied the authenticity of its invoices in support of spot purchase found in DFO’s records; (iv) Firm C appeared to be a sister organization of Firm A; and (v) Firm B could not be located at the address stipulated in the contract, a possibility of a case of “phantom” vendor to misappropriate the project funds.

TAKEAWAY

Phantom vendors were used by project officials and/or personnel in collusion to misappropriate project funds in this case. Documented third-party inspections can mitigate the risk of misappropriating project funds.



Source: ADB (OAI).



Scheme: Conflicts of Interest

Incompatible financial management functions assigned to a project implementing agency staff result in conflict-of-interest situations. This exposes the project to the risk that project funds may be used to pay for expenditures which were not eligible, incurred, or legitimate.

Red Flags of Conflicts of Interest. PIRs have identified incompatible functions assigned to personnel handling financial management which constitute conflict-of-interest situations. These red flags are shown below. Case studies of red flags of conflict of interest in financial management function and their impact on the project are presented in Box 12.

- ▶ The same person performs incompatible functions, i.e., contravention of the maker-checker principle, for example,
 - ▷ The project accountant prepared the accounting books and checks, performed bank reconciliations, and signed checks as well.
- ▶ The same person who previously handled the financial management function of the consulting firm under the project was engaged by the executing agency to perform the same function for the project.



Box 12: Red Flags of Conflicts of Interest in Financial Management Function

The Same Person was Engaged to Perform Accounting and Internal Audit Functions

The project's accounting and auditing support for the project management unit was provided by a specialist under the project's contract for a Central Support Team consultancy services. The specialist was involved in processing and reconciling the project's financial transactions and verification of all claims, including those submitted for the same consultancy contract. The specialist was also tasked to then audit the same transactions which he had direct involvement in processing. This situation exposed the specialist to conflicts of interest as he was reviewing and auditing the work in which he helped prepare and/or verify. This lack of segregation of duties exacerbated the conflict-of-interest situation.

The proactive integrity review (PIR) of project disbursements disclosed the following irregularities:

- For claims relating to the Central Support Team consultancy services, there was no adequate documentation available to reconcile claims made to ADB through withdrawal applications, to detailed supporting documentation for a year's expenditure.
- Identified personnel whose remunerations and reimbursable expenses were claimed from the project did not appear to have been deployed to the field as claimed. The PIR team was not able to verify the existence of four of these personnel while on the field.

- Individual consultant inputs per claim documentation were not always consistent with other project documentation.
- Claims submitted by consultancy firms for reimbursable expenses under all three consultancy contracts were frequently in excess of what were expended. This occurred repeatedly and across all three consultancy contracts, which raised the question as to whether claims from project funds were inappropriately inflated to "profit" from reimbursable expenses.
- There were many instances of irregular, inadequate and/or missing supporting documentation, which also occurred repeatedly across time by the same consultancy consortiums.

These irregularities indicated that fraudulent and corrupt activity may have taken place, which could have been a result of conflict-of-interest situation coupled with internal control weaknesses.

TAKEAWAY

Delegating incompatible functions to a single individual increases the risk of undetected irregularities and errors in the project's financial transactions. The importance of ensuring a check and balance mechanism in ensuring appropriateness and accuracy of financial transactions cannot be overemphasized.



Source: ADB (OAI).

CHECKLIST—How to Spot Red Flags during Expenditures Management

The checklist is intended to be used only as a guide. Responses should be based on relevant documents/information relating to the process of each contract reviewed. Not all questions will be relevant to all contracts but all the “yes” responses can be used to seek clarifications from concerned parties. Additional review, analysis, and professional judgment are encouraged.

QUESTION	YES	NO	REMARKS
1. Does the project accountant perform incompatible functions, i.e., recording transactions, reconciling bank accounts, issuing checks, and internally auditing the accounts?	<input type="checkbox"/>	<input type="checkbox"/>	
2. Did the invitation for bid provide unrealistic timeframe for bidders to prepare and submit bids? Please note that timing may be impacted by holidays, elections, natural disasters, etc.	<input type="checkbox"/>	<input type="checkbox"/>	
3. Did the contractor provide a bank guarantee that was inconsistent with the contract terms? • If yes, was full mobilization advance paid despite the ineligible bank guarantee?	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	
4. Review progress and final payments of expenditures under a contract.			
a. Were there instances when amounts paid were inaccurate based on the contract payment schedule?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Were claims supported with inadequate supporting documents, i.e., invoices, receipts, progress payment certificates, acceptance certificates (for completed works)?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Were there claims paid but without any supporting document? • If yes, has this been a recurring issue for a specific contract?	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	
d. Were there two or more bills for the same work for the same contract?	<input type="checkbox"/>	<input type="checkbox"/>	
e. Were there two or more bills for two different contracts billed under one contract? • If yes, do these invoices exhibit similarities in layout, handwriting, or signatures?	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	
f. Were there claims paid for work that were not yet done or goods not delivered? If yes: • Were the supporting documents approved by appropriate authorities? • Is this a recurring practice?	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
g. Were there payments made without appropriate approvals?	<input type="checkbox"/>	<input type="checkbox"/>	
5. Review authenticity of supporting documents. Were there indications that supporting documents are not genuine? • If so, please identify the indicators:	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> white out corrections			
<input type="checkbox"/> invoice with no/unusual letterhead			
<input type="checkbox"/> altered documentation			
<input type="checkbox"/> photocopy/not original documentation			
<input type="checkbox"/> penmanship in invoices similar to those of other payees			
<input type="checkbox"/> invoice with unusual or unprofessional appearance			
6. For civil works, were progress/completion certificates not signed by the supervision engineers or designated staff?	<input type="checkbox"/>	<input type="checkbox"/>	
7. For consultant’s contracts, were their ineligible claims that were paid? If yes,	<input type="checkbox"/>	<input type="checkbox"/>	
a. Are there indications that these were intentionally and not erroneously claimed and paid?	<input type="checkbox"/>	<input type="checkbox"/>	
b. Are there unjustified discrepancies between remuneration claims and individual timesheets of consultants?	<input type="checkbox"/>	<input type="checkbox"/>	
c. Are there indications of nonexistent personnel included in the claims (check against list of personnel per contract and substitutions documentation)?	<input type="checkbox"/>	<input type="checkbox"/>	
8. For goods, were final payments made without receiving/inspection and/or acceptance reports?	<input type="checkbox"/>	<input type="checkbox"/>	
9. Do the project audited financial statements contain findings on irregularities in expenditures processing? • If yes, were these not acted upon by the project executing/implementing agency?	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>	
10. Compare the bid submission register and bid opening record. Were there a number of bidders abnormally absent during the bid opening?	<input type="checkbox"/>	<input type="checkbox"/>	

Comments (For all “Yes” responses, analyze and document the results)

Please refer red flags, including documentation thereon to OAI for further verification.

Mitigating Measures

The success of project implementation depends not only on understanding ADB’s relevant policies and procedures but in ensuring that integrity risks are mitigated to curb fraud and corruption. The proposed tools to mitigate integrity risks in procurement (Appendix 1), contract and asset management (Appendix 2), and financial management (Appendix 3) are anchored on the three integrity pillars of transparency (proper documentation of key decisions, public disclosure of project information, and protection of confidential information), fairness (objective and reliable bidding process and requirements optimizing competition, impartial evaluation, and credible complaints mechanism), and accountability and control (accurate and timely project accounting and reporting,

eligibility of expenditures and timely payments, adherence to contract provisions, and adequate project oversight and management), where applicable, as shown in Table 4.

These apply to all projects regardless of the structure of the entities implementing the projects, i.e., they are applicable to centralized, decentralized, and multilayer project structures, except when otherwise specified.

Project teams are urged to use the checkpoints in mitigating integrity risks in designing and implementing ADB projects.

Table 4: Integrity Pillars in Project Implementation

PROJECT IMPLEMENTATION PROCESS	TRANSPARENCY	FAIRNESS	ACCOUNTABILITY AND CONTROL
Procurement	<ul style="list-style-type: none"> • Procurement documentation is clear and accurate to capture any concerns. • Procurement-related decisions are documented, and approvals for deviations are sought. • Approvals of the results of evaluation are based on accurate information. 	<ul style="list-style-type: none"> • All prospective bidders are promptly provided with consistent bid information. • Evaluation is objective and impartial to ensure contracts are awarded to the most qualified bidder. 	<ul style="list-style-type: none"> • There is assurance that the procurement exercise is free from undue influence. • Documentation and records management procedures provide adequate audit trail of project procurement activities.
Contract and Asset Management	Contract and asset management documentation is complete, updated, and accurate to assess contract implementation progress and ascertain existence of project assets.		<ul style="list-style-type: none"> • Procedures employed in implementing contracts are robust. • Documentation and records management procedures provide adequate audit trail of contract and asset management activities.
Financial Management			<ul style="list-style-type: none"> • The project accounting system and procedures are adequate and reliable to provide accurate and timely information. • The financial management system is robust to counter the risk of undetected irregularities. • Internal controls are adequate to prevent abuse of project funds and ensure that payments are made only for eligible expenditures. • Documentation and records management procedures provide adequate audit trail of project financial management activities.

Source: ADB (OAI).

SECTION 4

Conclusion

The PIR methodology has evolved over the years and will continue to adapt to challenging environments. To ensure lasting impact of its efforts against corruption, ADB remains committed to continue to collaborate with project stakeholders through PIRs in contributing to the success of ADB-financed projects.

Project teams should use this publication, which incorporates practical tools in identifying integrity risks and developing preventive measures to improve project design, administration, and management, and contribute significantly to delivering successful projects and meeting development goals.

The fight against corruption continues to be ever more challenging. Tackling the challenge can only be accomplished with active cooperation, collaboration, innovativeness, and vigor of a diverse range of development stakeholders. Each individual's actions and choices do matter when it comes to ensuring that development funds are used wholly and solely for intended purposes and beneficiaries. Thus, recognizing how and where corruption occurs in development projects, and acknowledging that we have the tools to do something about it, we enjoin development partners and recipients of development assistance to work together in tackling corruption.

More information about PIRs can be found at <https://www.adb.org/site/integrity/proactive-integrity-review>.

APPENDIX 1

Checkpoints for Project Teams: Mitigating Integrity Risks **During Procurement**

To maintain **transparency**, project teams should ensure that during procurement:

- a. procurement documentation is clear and accurate to capture any concerns;
- b. procurement-related decisions are documented, and approvals for deviations are sought; and
- c. approvals of the results of evaluation are based on accurate information.

TOPIC	RESPONSE	REMARKS
Bidding		
1. Does the executing/implementing agency ensure that any changes in the procurement mode and procurement plan and justifications therefore are documented and approved by the relevant authorities of the Government and ADB?		
2. Does the executing/implementing agency ensure that (i) all modifications in the bid documents and justifications therefore are documented for review and approval by ADB, and (ii) all changes by ADB are taken into account before issuance of the final bid documents?		
3. Does the executing/implementing agency hold pre-bid meetings for high-value, high-risk, or complex procurement, where bidding requirements are carefully discussed with bidders?		
4. Does the executing/implementing agency ensure that the pre-bid meeting discussions are recorded and documented in the minutes of pre-bid meeting?		
5. Does the executing/implementing agency accurately document bid sales and bid submissions in the registers?		
6. Does the executing/implementing agency document justifications for extension or not allowing prospective bidders' requests for extension of bid submission deadline?		
7. Does the executing/implementing agency accurately and clearly document the bid opening in the bid opening record, duly signed by the bid opening committee members and representatives of prospective bidders?		
8. In case of rebidding, does the executing/implementing agency clearly and accurately document the justification therefore before requesting ADB's approval?		
Bid Evaluation		
9. Does the bid evaluation committee record results of verification of information provided by bidders against information in bids (due diligence checks)?		
10. Does the bid evaluation committee record and reflect decisions made and justifications for deviations in the bid evaluation reports?		
Contract Award		
11. Does the executing/implementing agency document discussions with winning bidder prior to contract signing?		
12. Does the executing/implementing agency publish the contract award immediately after ADB's no objection?		
13. Does the executing/implementing agency appropriately address losing bidders' requests for debriefing, if any?		

To uphold **fairness**, project teams should ensure that during procurement:

- a. all prospective bidders are promptly provided with consistent bid information; and
- b. evaluation is objective and impartial to ensure contracts are awarded to the most qualified bidder.

TOPIC	RESPONSE	REMARKS
Bidding		
1. Does the executing/implementing agency comply with ADB's requirements in providing prospective bidders sufficient time to submit bids?		
2. Does the executing/implementing agency ensure that any changes to the bidding documents and bid opening dates are promptly communicated to all bidders?		

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Checkpoints for Project Teams: Mitigating Integrity Risks **during Procurement**

TOPIC	RESPONSE	REMARKS
3. Does the executing/implementing agency promptly transmit to all prospective bidders the minutes of pre-bid meetings, including responses to clarifications of prospective bidders prior to bid submission deadline?		
4. Does the executing/implementing agency promptly communicate with prospective bidders the justifications for not allowing requested extensions of bid submission deadlines?		
5. Does the executing/implementing agency ensure that late bids are not opened?		
6. Does the bid opening committee verify the bid securities to ensure only bids with valid bid securities are evaluated?		

Bid Evaluation

7. Do bid evaluation committee members undergo hands-on training on all aspects of bid evaluation, especially due diligence, before embarking on new bid evaluation assignments?		
8. Does the bid evaluation committee verify the information provided by bidders against information in bids-supporting documents (records check), from online sources (sanctions check and desktop research), and/or from third parties (reference check), including accuracy of information drawn from computations?		
9. Does the bid evaluation committee consistently apply the bid criteria across bidders?		
10. Does the bid evaluation committee seek clarifications from bidders on their submissions, where necessary?		
11. Does the bid evaluation provide sufficient time for bidders to submit responses to clarifications sought during bid evaluation?		
12. Does the bid evaluation committee check the accuracy and completeness of information in the evaluation sheets to ensure contracts are awarded only to the most qualified bidder?		

To safeguard **accountability and control**, project teams should ensure that during procurement:

- a. there is assurance that the exercise is free from undue influence; and
- b. documentation and records management procedures provide adequate audit trail of project procurement activities.

TOPIC	RESPONSE	REMARKS
Bidding		
1. Does the executing agency require bid evaluation committee members and key procurement officials to sign a conflict of interest declaration prior to each procurement exercise?		
2. Does the executing/implementing agency check the clarity, completeness and consistency of information in the bidding documents before issuance?		
3. Does the executing/implementing agency maintain bid sales and bid submission registers?		
4. Does the executing/implementing agency maintain complete record of requests from prospective bidders for extension of bid submissions and responses thereon, including documentation on justification for not allowing the requested extension?		
5. Does the executing/implementing agency maintain a record of pre-bid meetings and responses to clarifications from bidders prior to bid submission deadline?		
6. Does the executing/implementing agency maintain a record to evidence transmission of any changes to the bidding documents and bid opening dates to all bidders?		
7. In case of rebidding, does the executing/implementing agency maintain a record of all relevant documentation on justification and correspondence with and approval by ADB?		

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Checkpoints for Project Teams: Mitigating Integrity Risks **during Procurement**

TOPIC	RESPONSE	REMARKS
Bid Evaluation		
8. Does the executing/implementing agency maintain a record of communications between the bid evaluation committee and bidders regarding clarifications on bid submissions?		
9. Does the executing/implementing agency check the consistency, accuracy and completeness of information in bid evaluation reports before submitting these for ADB's approval?		
10. Does the executing/implementing agency maintain a tracking mechanism to monitor expiry of bid securities to ensure that bidders are reminded to extend bid securities in cases of prolonged bid evaluation procedures?		
Contract Award		
11. Does the executing/implementing agency ensure completeness of the accountability provisions in the contract before this is signed?		
12. Does the executing/implementing agency maintain a record of negotiations documentation?		
13. Does the executing/implementing agency ensure that contracts necessitating prior approval by ADB are awarded and executed only upon receipt of ADB's approval?		
14. Does the executing/implementing agency ensure that contracts are negotiated and signed only by persons identified in the power of attorney?		
15. Does the executing agency ensure that contracts are signed only after resolution of issues during negotiations (e.g., compliance with manpower and equipment requirements)?		
16. Does the executing/implementing agency only accept performance security with compliant validity period?		
17. Does the executing/implementing agency maintain records of all communications with the winning bidder?		
18. Does the executing/implementing agency maintain copies of publications of contract awards?		
19. Does the executing/implementing agency maintain a record of documentation of representations made by failed bidders, if any, and responses thereto?		
Checkpoints that Cut Across Procurement Subprocesses		
20. Has the executing/implementing agency implemented records management procedures that facilitate records storage and retrieval, and prevent misplacement of project procurement-related documents and records?		
21. Does the executing/implementing agency maintain a record of complaints from the bidders regarding the procurement process?		
22. Does the executing/implementing agency report indicators of fraud and corrupt practices in identified during procurement process to ADB Office of Anticorruption and Integrity?		

APPENDIX 2

Checkpoints for Project Teams: Mitigating Integrity Risks in **Contract and Asset Management**

To maintain **transparency**, project teams should ensure that contract and asset management documentation is complete, updated, and accurate to assess contract implementation progress and ascertain existence of project assets.

TOPIC	RESPONSE	REMARKS
Contract Administration		
1. In cases of substitution of key experts, does the executing agency document its review of substitute experts' qualifications before approval?		
2. Does the executing agency approve contract variations only if reasons/justifications for the variation order are accurately documented and supported?		
Output Monitoring		
3. Does the executing/implementing agency promptly update and ensure accuracy of listing of contracts, including physical and financial progress?		
4. Do the executing/implementing agency and supervision consultants promptly and accurately document verification of works through field visits and include these in the periodic progress reports submitted to ADB? [A guide that provides a practical framework for field visits/asset inspections can be accessed here .]		
5. Do the executing/implementing agency and supervision consultants require the contractors to ensure the construction diaries are updated, complete and accurate?		
6. Do the executing/implementing agency and supervision consultants ensure that the periodic progress reports contain complete and accurate information, including issues noted and resolutions on the physical and financial progress of the project?		
7. Does the executing/implementing agency ensure that the monitoring reports for delivery of goods are updated and accurate?		
Asset Control		
8. Does the executing/implementing agency ensure that inspection and acceptance of goods received are documented accurately in inspection and/or acceptance reports, including actions taken on issues noted in inspection reports?		

To strengthen **accountability and control**, project teams should ensure that in contract and asset management:

- procedures employed in implementing contracts are robust; and
- documentation and records management procedures provide an adequate audit trail of contract and asset management activities.

TOPIC	RESPONSE	REMARKS
Contract Administration		
1. Does the executing agency rigorously apply contractual remedies in any situation where the contractor, consultant or supplier breaches contract terms (i.e., poor performance, use of substandard materials, noncompliance with contract specifications, or corrupt behavior)?		
2. Does the executing/implementing agency maintain a record of relevant documentation for substitutions of key experts, including review of qualifications and approval therefore?		
3. Does the executing/implementing agency ensure that (i) the vetting procedures conducted by the contractor and supervision consultants on the proposed subcontractor are in accordance with the contract requirements, including eligibility, among others; and (ii) relevant documentation, including review of eligibility and contract requirements are maintained?		
4. Does the executing agency promptly submit to ADB for prior approval whenever the cumulative effect of the variation orders exceeds the percentage threshold of the original contract price?		
5. Does the executing/implementing agency maintain a record of relevant documentation supporting contract variations, including approvals?		

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Checkpoints for Project Teams: Mitigating Integrity Risks in **Contract and Asset Management**

TOPIC	RESPONSE	REMARKS
Output Monitoring		
6. Does the executing/implementing agency and supervision consultants maintain documentation supporting cost estimates and related updates?		
7. For decentralized, complex, or high-risk projects, does the executing agency augment supervision/monitoring activities (e.g., by engaging third-party monitoring firms)?		
8. For decentralized, complex, or high-risk projects, do the executing agency and ADB intensify supervision (i.e., more frequent review missions and field visits) to confirm the progress of project implementation?		
9. Do the executing/implementing agency and supervision consultant rigorously monitor those portions of the works with bill of quantity significantly lower than the cost estimates, and ensure that variations are not created for these work items?		
10. Does the supervision consultant maintain/retain the test results/reports of materials submitted by contractors?		
11. Does the supervision consultant conduct independent tests of materials, and are documentation of test results, including disposition of failed tests maintained?		
12. Does the supervision consultant maintain updated working drawings and as built drawings for works contracts?		
13. For completed works, does the consultant conduct independent tests prior to certification, and are documentation of results, including disposition of failed tests maintained?		
14. Does the executing/implementing agency maintain copies of documented field visits, documented disposition of issues noted during field visits, and progress reports?		
15. Does the executing/implementing agency and supervision consultant maintain a file of correspondence between the supervision consultant and contractor on work-related issues, e.g., delays, substandard work/material, equipment, and manpower?		
16. Does the supervision consultant maintain a file of documentation on certifications of progress of works as reviewed and endorsed?		
17. Does the executing/implementing agency have a mechanism to closely monitor the supervision consultants and determine their level of compliance with the consulting contract?		
18. Does the executing/implementing agency maintain a file of correspondence with supervision consultants on performance and other work-related issues?		
19. Does the executing/implementing agency maintain a file of correspondence with supplier in cases of delays in delivery of goods and other procurement issues?		
20. Does the executing/implementing agency report poor performance and/or corrupt practices in contract implementation to the ADB Office of Anticorruption and Integrity?		
Asset Control		
21. Does executing/implementing agency have a documented policy for contractors to have materials protection and storage, and records maintenance?		
22. Does the executing agency have documented procedures on delivery, receipt and distribution of goods?		
23. After asset turnover, does the executing/implementing agency enforce access controls and regularly conduct periodic inventory and asset inspection?		
24. Does the executing/implementing agency maintain an updated asset register that records project assets, results of periodic inventory, and asset inspection, including disposition of defective assets?		

APPENDIX 3

Checkpoints for Project Teams: Mitigating Integrity Risks in **Financial Management**

To fortify **accountability and control**, project teams should ensure that in financial management:

- a. the project accounting system and procedures are adequate and reliable to provide accurate and timely information;
- b. the financial management system is robust to counter the risk of undetected irregularities;
- c. internal controls are adequate to prevent abuse of project funds and ensure that payments are made only for eligible expenditures; and
- d. documentation and records management procedures provide adequate audit trail of project financial management activities.

TOPIC	RESPONSE	REMARKS
Expenditure Management		
1. Does the executing/implementing agency implement segregation of duties in preparing, reviewing, recording, and approving project financial transactions?		
2. Does the executing/implementing agency maintain updated records of approving authorities' specimen signatures?		
3. Prior to endorsing each claim for payment, does the executing and implementing agencies ensure that (i) payment approval procedures are followed, (ii) supporting documents (e.g., invoices, receipt, progress payment certificates, acceptance certificates) are checked/verified for accuracy and completeness, and (iii) information in the claims are validated against contracts and supporting documents?		
4. Does the executing/implementing agency refuse or reduce payments for works or services that were not performed or goods that were not delivered?		
5. For projects that entail cash transactions, does the executing agency have documented financial management rules and policies on cash transactions that should be upheld by the implementing agencies to ensure cash transactions are appropriately justified and reviewed before payments are made?		
6. Does the executing/implementing agency maintain complete files of documentation supporting all claims, including those that were disapproved for payment and justifications therefore?		
7. Does the executing/implementing agency maintain a record of all communications between ADB and the executing/implementing agency relating to issues and/or disallowances on claims?		
8. Does the executing/implementing agency report indicators of fraud and corrupt practices identified during expenditures processing to ADB Office of Anticorruption and Integrity?		
Financial Reporting		
9. Does the executing agency implement a computerized accounting system where the critical functions are automated and data are generated in real time?		
10. Does the executing agency (i) have a manual on maintaining adequate and reliable accounting systems, which includes guidelines on maintaining financial records, performing account reconciliations, segregation of duties, accounting procedures for project transactions, flow of project information, and data backup; (ii) train all project management agencies/units/offices on applying this manual; and (iii) monitor their compliance with the manual?		
11. Does the executing/implementing agency maintain project accounts separately from other projects and activities of the agencies?		
12. Does the executing/implementing agency ensure that periodic account reconciliations (project vs. ADB financial records, project vs. bank records) (i) are performed monthly or quarterly, as necessary and practicable, (ii) discrepancies are addressed immediately; and (iii) documentations, including bank statements are retained?		
13. Does the executing/implementing agency ensure that the annual audited project financial statements and management letters are promptly submitted to ADB?		
14. Does the executing/implementing agency ensure prompt resolution of qualifications and audit findings, including ADB comments on the audited project financial statements and management letters, and maintenance of documentation on actions taken?		
15. For decentralized projects where the number of implementing entities increase, does the executing agency and ADB intensify their fiduciary oversight in addition to regular audits?		

Proactive Integrity Reviews

A Preventive Mechanism against Corruption

This publication highlights the impact of proactive integrity reviews (PIRs) in terms of raising awareness on lessons that executing and implementing agencies and project implementation units can draw from sovereign projects of the Asian Development Bank (ADB). It aims to build further understanding of PIRs, which help prevent and detect indicators of integrity violations (i.e., fraud, corruption, collusion, coercion, abuse, conflict of interest, and obstruction) in sovereign projects. A brief PIR history since 2003 includes key statistics as well as highlights from lessons learned regarding integrity risks, such as red flag indicators, which may occur in the procurement, contract and asset management, and financial management processes.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members —49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

