

# Appendix 4

## PROJECT PROCUREMENT-RELATED AUDITS CONDUCTED IN 2007

### Loan 1732-NEP(SF): Rural Electrification, Distribution, and Transmission Project

1. The Integrity Division (OAGI) conducted a project procurement-related audit (PPRA) on ADB Loan 1732-NEP(SF): Rural Electrification, Distribution, and Transmission Project from November 2006 to February 2007, jointly with the Auditor General's Office of Nepal and a team of local consultants. The PPRA reviewed all contracts awarded as of 31 October 2006, which amounted to \$39.5 million.

2. The PPRA determined that the project generally complied with ADB's Guidelines on Procurement and Use of Consultants, but noted some weaknesses in procurement management. The PPRA also identified a few possible collusive and fraudulent practices that the project contractors and/or suppliers may have committed during the bidding process. OAGI is investigating these indicators following ADB's Integrity Principles and Guidelines.

3. The PPRA established that the project generally utilized the loan proceeds for its intended purpose but experienced implementation delays mainly because of shortage in counterpart funds. Inspection of the project assets and ongoing civil works under 15 contracts (50% of contracts received) at various project sites revealed that the goods were poorly stocked and were not utilized on a timely basis, while others were "borrowed" by other divisional offices of the Nepal Electricity Authority for nonproject-related purposes. The Nepal Electricity Authority expressed great concern during the exit conference and took immediate action to ensure the project assets are properly stored and accounted for.

### Loan 1672-PAK(SF): Malakand Rural Development Project

4. OAGI conducted a PPRA on ADB Loan 1672-PAK(SF): Malakand Rural Development Project from March to May 2007, jointly with the Auditor General of Pakistan, with the assistance of consultants. The PPRA team reviewed 60% of the contracts awarded as of 30 November 2006 comprising 16 contracts with a total value of \$14.3 million.

5. The PPRA identified serious irregularities and instances of noncompliance with ADB's guidelines in the road development component of the project (45% of the total project cost), resulting in unsatisfactory progress and significant implementation delays. Findings included possible fraudulent practices by contractors in executing contracts; substandard materials and poor work quality for roads; and lack of due diligence and supervision by the engineer consultant.

6. As a result of the PPRA report, ADB immediately suspended disbursements on the project's road contracts and canceled the remaining portion of the road financing. OAGI is in the process of investigating the indications of possible fraud and corruption identified following ADB's Integrity Principles and Guidelines.

### Loan 2116-PRC: Dali-Lijiang Railway Project

7. OAGI, jointly with the China National Audit Office and supported by a team of local consultants, conducted a PPRA on ADB Loan 2116-PRC: Dali-Lijiang Railway Project. The Audit team reviewed

100% of the contracts awarded as of 31 December 2006, which amounted to \$133 million.

8. The PPRA concluded that the procurement and financial management processes of the project was efficient, organized, and clearly documented except for minor internal control weaknesses. The tendering companies the borrower engaged generally complied with ADB's Procurement Guidelines and the Loan Agreement.

9. The PPRA determined that the contract prices under selected contracts were fairly reasonable, and the contract implementation was generally adequate except for minor delays in civil works due to geographical complexity. The construction delays resulted in delivery date of the project assets being pushed back, thus the Audit team was unable to inspect the selected project goods.

#### Loan 1844-LAO(SF): Second Education Quality Improvement Project

10. OAGI conducted a PPRA on ADB Loan 1844-LAO(SF): Second Education Quality Improvement in the Lao People's Democratic Republic (Lao PDR) from May 2007 to October 2007, with a representative from the Auditor General's Office of the Lao PDR joining during the planning phase and a team of consultants assisting. The PPRA covered 98 contracts amounting to \$7.8 million (92%) of \$8.5 million contracts awarded as of 31 December 2006.

11. The Project's procurement documents were disorganized and not kept systematically; hence, some were unavailable to the Audit team. The absence and misfiling of key documents imposed limitations on the

PPRA and may weaken the project management and monitoring during the life of the project.

12. The PPRA concluded that the project generally complied with ADB's Procurement Guidelines and ADB's Guidelines on the Use of Consultants under selected contracts, but identified irregularities in the procurement process that may have violated the anticorruption policy. The PPRA also observed construction defects on newly constructed project buildings and noted possible design flaws. This is a pilot, geographically decentralized ADB-financed project in the Lao PDR. Weak institutional capacity, limited experience in understanding ADB's guidelines, and unclear division of responsibilities at the central and provincial levels may have been inevitable and contributed to the challenges. OAGI is further investigating the indicators of possible fraud and corruption following ADB's Integrity Principles and Guidelines.

#### Loan 1909-INO(SF): Poor Farmers' Income Improvement Through Innovation Project

13. OAGI, jointly with the Audit Board of Indonesia, conducted a PPRA of ADB Loan 1909-INO(SF): Poor Farmers' Income Improvement Through Innovation Project from September to December 2007, with the assistance of a team of consultants. The PPRA fieldwork has been completed and exit conference was held on 6 December 2007 to discuss the audit findings and recommendations with the executing agency (EA) and key project management officials. The PPRA final report, which will include comments from the EA, project implementation units, ADB's project unit, and the Indonesia Resident Mission, is expected to be issued in early 2008.