About this Publication

This report presents the accomplishments of the Integrity Division, Office of the Auditor General (OAGI) in 2007. Pursuant to the Anticorruption Policy, approved by ADB Board of Directors (July 1998), OAGI screens and investigates allegations of fraud, corruption, coercion, collusion, conflict of interest, and/or related abuse in ADB-financed activities in accordance with ADB’s Integrity Principles and Guidelines.

The report explains OAGI’s mandate, operational and administrative arrangements, processes and procedures; and features summaries of cases screened and investigated, and project procurement-related audits conducted, in 2007. The report also describes OAGI’s 2007 recommendations to ADB management, operational departments, and other entities; activities to advance awareness of and education on the anticorruption policy; capacity building initiatives to enhance OAGI; and OAGI’s collaboration and coordination endeavors with other multilateral development banks.

The report includes a section on challenges ahead for OAGI, including discussions on workload and resources; ADB’s internal governance; implementing effective measures to prevent fraud and corruption in ADB projects; whistleblower protection; and OAGI independence and administration.

About the Asian Development Bank

ADB aims to improve the welfare of the people in the Asia and Pacific region, particularly the nearly 1.9 billion who live on less than $2 a day. Despite many success stories, the region remains home to two thirds of the world’s poor. ADB is a multilateral development finance institution owned by 67 members, 48 from the region and 19 from other parts of the globe. ADB’s vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.

ADB’s main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ADB’s headquarters is in Manila. It has 26 offices around the world and more than 2,000 employees from over 50 countries.
Report to the President

Office of the Auditor General
INTEGRITY DIVISION
2007 ANNUAL REPORT

Asian Development Bank
Abbreviations

ADB  –  Asian Development Bank
AO   –  Administrative Order
BPHR –  Human Resources Division
BPMSD –  Budget, Personnel and Management Systems Department
COSO –  Central Operations Services Office
CV   –  curriculum vitae
CWRD –  Central and West Asia Department
DMC  –  developing member country
EA   –  executing agency
GMIP –  Group Medical Insurance Plan
IOC  –  Integrity Oversight Committee
JV   –  joint venture
MDB  –  multilateral development bank
OAG  –  Office of the Auditor General
OAGI –  Integrity Division, Office of the Auditor General
OGC  –  Office of the General Counsel
PPRA –  project procurement-related audit
RETA –  regional technical assistance
SAI  –  supreme audit institution
TA   –  technical assistance

Note

In this report, “$” refers to US dollars and “PHP” to Philippine pesos.
Executive Summary

Introduction

The Integrity Division, Office of the Auditor General (OAGI), is the focal point of the Asian Development Bank’s (ADB) drive against corruption. At the forefront of all OAGI’s efforts is to contribute to ADB’s declared mission to improve the welfare of the people in the Asia and Pacific region, particularly those who live on less than $2 a day. Corruption has a strong adverse impact on development efforts; hence, the more successful ADB’s anticorruption drive is, the more the burden of poverty is reduced.

Since the anticorruption policy was approved in July 1998, ADB’s anticorruption drive has grown from strength to strength, and continues to surge forward. This Annual Report summarizes how OAGI accomplished ADB’s mission in 2007 and identifies the challenges ahead.

During 2007, OAGI continued both its approaches of being reactive (receiving complaints, conducting investigations, acting as resource, and providing support on anticorruption issues) and proactive (preventive efforts that involve audits, education, training, capacity building, collaboration, and cooperation).

Complaints and Investigations

OAGI closed 2007 with a tenfold increase in complaints received compared with 1998. This indicates that preventing corruption is making inroads among stakeholders who see that ADB will act on allegations received and that ADB is serious in its anticorruption stance.

In 2007, OAGI received 211 complaints. Ninety-five investigations were opened during the year, and at year’s end, 66 are ongoing. Also in 2007, ADB sanctioned a total of 61 firms and 48 individuals, and reprimanded one firm and seven individuals.

Twelve percent of all allegations received involved ADB staff—4% less than the previous year. Such cases require sensitive handling, and the highest levels of propriety, confidentiality, and impartiality. These cases also require significant resources and are often a strain on OAGI’s staff resources.

In 2008, OAGI will continue to
- Screen allegations of fraud or corruption and assess the need for further investigation,
- Investigate cases as appropriate, and
- Conduct project procurement-related audits (PPRAs) to help prevent and detect fraud or corruption.

Additionally, in an effort to sustain the highest standards of integrity, in the latter half of 2007, OAGI commenced a review of its internal procedures and processes, which will continue into 2008. It is anticipated that in 2008, new guidelines will be introduced as appropriate. For example, OAGI anticipates submitting for approval Guidelines for Interviews and the Use of Electronic Equipment for Interviews in the first quarter of 2008. OAGI will also introduce new forms and office procedures covering a range of its operations in 2008. For instance, OAGI is reviewing its IT systems capabilities and related IT processes and subprocesses in order to enhance efficiencies and intelligence data gathering and reporting.

Given the enhanced level of awareness of the impacts of fraud and corruption on ADB projects, OAGI received higher levels of requests for data and specific case information in 2007. OAGI anticipates that the demand for specific data on incidences of fraud and corruption from other ADB departments will continue to grow. Consequently, in 2008, in step with initiatives commenced in 2007, OAGI will review and introduce systems to generate a wide range of data for use by other ADB departments.
Project Procurement-Related Audits

Five PPRAs were conducted in 2007. Significantly, these PPRAs were conducted jointly with relevant developing member countries’ (DMCs) supreme audit institutions (SAIs), thereby further consolidating the SAIs’ skills and capacity. To date, OAGI has completed and issued four of these PPRA reports, with the fifth report due in early 2008.

In 2008, a total of six PPRAs—each with the participation of the country’s SAI—have been planned.

Performance and Financial Audits

On an exceptional basis, at the request of the Central and West Asia Department and the Office of the President, OAGI carried out a performance and financial audit of four related Technical Assistance projects. OAGI continues to be responsive to requests from ADB divisions where these involve issues of anticorruption and integrity.

Capacity Building

During 2007, OAGI was responsible for the administration and implementation of a regional technical assistance (RETA) project to provide regional seminars on anticorruption and was involved in another RETA designed to strengthen the capacity of SAIs.

OAGI will continue to work closely with SAIs and DMCs to assist with capacity building and skills enhancement. In 2008, OAGI intends to introduce two new RETA projects on anticorruption to build on the milestones achieved to date.

Anticorruption Awareness

OAGI continued to provide training workshops and seminars to staff, both at Headquarters and at Resident Missions, on fraud and corruption detection, and prevention. Advisories are regularly published in ADB Today on internal news bulletin topical anticorruption issues. Additionally, in 2007, OAGI provided briefings on its role and activities to business trade delegations from Canada, France, the Netherlands, and Sweden.

OAGI recognizes that its website (www.adb.org/Integrity) provides a valuable resource to stakeholders; thus, in the latter half of 2007, the website was revamped, updated, and expanded. It will continue to be regularly updated to ensure that the content remains accessible, topical, timely, and useful.

As part of its outreach activities, OAGI will also publish translations of the anticorruption policy, and the Integrity Principles and Guidelines, in Bahasa Indonesia, Khmer, Chinese, and Russian languages. In 2008, OAGI will release a quick reference guide on anticorruption, conflict of interest, and integrity issues for staff.

Interagency Cooperation

During the year, OAGI continued to strengthen relationships with other international multilateral development banks (MDBs) by participating in integrity forums and targeted international conferences. Similar collaboration and dialogue toward a harmonized approach against corruption will continue in 2008. OAGI continues to collaborate with the other MDBs in developing unified approaches to cases of international relevance.
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HOW TO REPORT FRAUD OR CORRUPTION

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## Performance at a Glance

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<td>Complaints screened</td>
<td>211</td>
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<td>Investigations commenced</td>
<td>95</td>
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<td>Investigative missions conducted</td>
<td>17</td>
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<td>Individuals sanctioned/reinstated</td>
<td>48 / 6</td>
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<td>Firms sanctioned/reinstated</td>
<td>61 / 13</td>
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<td>Individuals and Firms reprimanded</td>
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<td>Workshops on Corruption and Fraud Awareness ran</td>
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<td>Integrity Forums attended</td>
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<td>Investigators Conference attended</td>
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# Year in Brief

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<th>Month</th>
<th>Event</th>
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| January 2007| - Issued the project procurement-related audit (PPRA) Report for Loan 1772-PHI: Infrastructure for Rural Productivity Enhancement Sector  
             - Formulated 2007 OAGI Workplan  
             - Conducted PPRA fieldwork for Loan 1732-NEP(SF): Rural Electrification Distribution  
             - Presented three cases to the Integrity Oversight Committee (IOC) for consideration                                                                 |
| February 2007| - Released 2006 OAGI Annual Report  
             - Presented OAGI's overall investigative findings and conclusions related to Loan 1792-INO(SF) to staff and project officials in Indonesia  
             - Presented three cases to the IOC for consideration  
             - Participated in interagency consultation with the European Bank for Reconstruction and Development, Inter-American Development Bank, and World Bank to assess best practices and identify potential areas to harmonize investigative practices  
             - Met with officials of Transparency International-USA and World Economic Forum  
             - Appointed Principal Integrity Specialist and Integrity Specialist  
             - Conducted PPRA wrap-up and presentation of findings to the Government for Loan 1732-NEP(SF)                                                                 |
| March 2007  | - Conducted the Corruption and Fraud Awareness Seminar in Pakistan  
             - Conducted PPRA planning for Loan 1672-PAK(SF): Malakand Rural Development Project                                                                                                                |
| April 2007  | - Conducted the Regional Seminar on Anticorruption in Beijing, People's Republic of China  
             - Conducted PPRA fieldwork for Loan 1672-PAK(SF)  
             - Presented three cases to the IOC for consideration                                                                                           |
| May 2007    | - Participated in the 8th International Investigators Conference in Austria  
             - Conducted PPRA fieldwork, wrap-up, and presentation of findings to the Government for Loan 1672-PAK(SF) and planning mission for Loan 1844-LAO(SF): Second Education Quality Improvement Project  
             - Presented four cases to the IOC for consideration  
             - Prepared and circulated, within OAGI, the draft Desk Documentation Procedures for PPRA and Investigations                                                                 |
| June 2007   | - Appointed new Auditor General for the Office of the Auditor General; a new Director, OAGI; and an Administrative Assistant  
             - Former Auditor General, Office of the Auditor General, and Director, OAGI, departed  
             - Issued the PPRA Report for Loan 1732-NEP: Rural Electrification Distribution, and Transmission Project                                                                 |
<table>
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<tr>
<th>Month</th>
<th>Event</th>
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| July 2007   | - Appointed Senior Integrity Officer  
- Conducted PPRA fieldwork, wrap-up, and presentation of findings to the Government for Loan 2116-PRC: Dali–Lijiang Railway Project and fieldwork for Loan 1844-LAO(SF)  
- Commenced revamping of the integrity and anticorruption website: www.adb.org/integrity  
- Presented five cases to the IOC for consideration  
- Conducted fraud detection and prevention seminar for the China National Audit Office Auditors |
| August 2007 | - Conducted PPRA fieldwork, wrap-up, and presentation of audit findings to the Government for Loan 1844-LAO(SF)  
- Attended the Regional Seminar on Conflict of Interest in Indonesia  
- Presented three cases to the IOC for consideration |
| September 2007 | - Conducted PPRA planning for Loan 1909-INO(SF): Poor Farmer’s Income Through Innovation Project  
- Identified and short-listed potential projects for PPRA in 2008 based on adopted selection criteria  
- Conducted a mission to monitor an independent performance and financial audit of four technical assistance projects  
- Issued the PPRA Report for Loan 1672-PAK(SF)  
- Presented two cases to the IOC for consideration |
| October 2007 | - Participated in the multilateral development banks’ (MDBs) Integrity Forum in Tunisia  
- Participated in Dynamics of Teamwork Workshop  
- Released the Report on Performance and Financial Audit of Four Technical Assistance Projects  
- Issued the PPRA Report for Loan 2116-PRC  
- Consulted with relevant regional departments and confirmed projects for 2008 PPRAs, and sent out invitations to concerned SAIs  
- Conducted PPRA fieldwork for Loan 1909-INO(SF): Poor Farmer’s Income Improvement Through Innovation  
- Presented two cases to the IOC for consideration |
| November 2007 | - Continued PPRA fieldwork for Loan 1909-INO(SF)  
- Conducted the Regional Seminar on Anticorruption in Jakarta, Indonesia  
- Presented three cases to the IOC for consideration |
| December 2007 | - Conducted PPRA wrap-up and presentation of findings to the Government for Loan 1844-LAO(SF)  
- Issued the PPRA Report for Loan 1844-LAO(SF)  
- Produced a new brochure on Anticorruption and Integrity |
The Integrity Division: Mandate, Staffing, and Organizational Chart

Mandate

The ADB Integrity Division (OAGI) is part of the Office of the Auditor General, an independent office under the Office of the President. OAGI screens and investigates allegations of fraud, corruption, coercive practice, collusive practice, conflict of interest, and abuse in ADB-financed activities or its staff. It was established in September 1999¹ as the Anticorruption Unit and became the Integrity Division in January 2005.

¹ Note, however, that actual investigative work commenced in 1998.

Staffing

The Integrity Division had a total of 13 staff as of 31 December 2007, comprising the Director, five professional staff, four technical staff, and three administrative staff. Table 1 shows the staff composition in OAGI from 2005 to 2007, and projections for 2008.

There were significant staff movements in 2007, including the appointment of a new Auditor General for the Office of the Auditor General and a new

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Mandate of the Integrity Division

- Conduct independent and objective investigations of fraud, corruption, collusive practice, coercive practice, conflict of interest, and certain misconduct known to or identified by OAGI.
- Conduct project procurement-related audits of ADB-financed activities to help prevent and detect fraud, corruption, or other forms of abuse.
- Advance awareness of the anticorruption policy, Integrity Principles and Guidelines, and related procedures by
  - Providing training
    - in relation to the anticorruption policy, Integrity Principles and Guidelines, and related procedures, including corruption and fraud awareness and internal control mechanisms to detect and deter corruption and fraud;
    - to ADB staff and other parties to ADB-financed or -supported activities; and
    - in coordination with Budget, Personnel and Management Systems Department (BPMSD) and other departments/offices, as appropriate.
  - Supporting ADB efforts to strengthen its developing member countries’ supreme audit institutions’ audit and fraud detection capacities.
- Formulate and promulgate guidelines and procedures relating to its investigative and audit activities for the President’s approval.
- Consult and collaborate with other multilateral development banks, international institutions, or other relevant parties to exchange ideas, practical experience, and insight on how best to address fraud, corruption, and abuse internally and externally.
Director, OAGI, both in June 2007. There were also the departures of the former Auditor General and former Director, and the appointments of a Principal Integrity Specialist, an Integrity Specialist, a Senior Integrity Officer, and an Administrative Assistant. As of 31 December 2007, one position of Integrity Specialist remained vacant.

OAGI engaged three staff consultants during 2007 to complement the work of professional staff, while a fourth consultant was engaged to assist with the administration of regional anticorruption seminars held throughout the year.

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

**Organizational Chart**

![Organizational Chart]

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<th>2008</th>
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<td>Director</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Principal Integrity Specialist</td>
<td>–</td>
<td>–</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Senior Integrity Specialist</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
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<tr>
<td>Integrity Specialist</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
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<tr>
<td>Senior Integrity Officer</td>
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<td>–</td>
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<td>Integrity Officer</td>
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<td>1</td>
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<td>Associate Integrity Analyst</td>
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<td>2</td>
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<td>3</td>
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<td>Assistant Integrity Coordinator</td>
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<tr>
<td>Senior Administrative Assistant</td>
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<td>1</td>
<td>–</td>
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<tr>
<td>Administrative Assistant</td>
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<td><strong>Total Staff</strong></td>
<td>10</td>
<td>10</td>
<td>13</td>
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Dealing with Allegations of Fraud and Corruption

Complaints Received

In 2007, OAGI received 211 new complaints or allegations from a variety of sources. This represents a significant increase of 23% over the 171 complaints received in 2006. Of the 171 complaints received in 2006, 33 were still being screened in 2007. While the specific reason for the rise in complaints is not known, OAGI considers that the accessibility of OAGI’s web-based reporting facility, coupled with the efforts to publicize ADB’s strong anticorruption stance both inside and outside of ADB, has raised the profile of anticorruption and has made it easier for people to report their suspicions.

Complaints to OAGI may be made in writing, by telephone, by e-mail, online, or by visiting OAGI at ADB. Details are outlined on page 52.

As Figure 1 shows, complainants preferred contacting OAGI via e-mail, which accounts for 49% of total complaints received in 2007. OAGI accepts anonymous complaints. Of the 211 complaints, nine (or 4%) were anonymous. In a limited number of anonymous cases, OAGI could not pursue the case because of the lack of specificity in the anonymous complaint and the inability to contact the complainant for more information.

Figure 2 illustrates the number of complaints received annually since 2003.

Screening

OAGI screens all allegations received pertaining to ADB-financed activity and/or its staff. Complaints are typically acknowledged in writing without delay.

At the conclusion of the case screening or assessment process, 95 new investigations were opened during 2007. Notably, the PPRAs continued to identify “red flags” and were a source of “leads”, which may warrant further investigation. As of 31 December 2007, 66 of these investigations are ongoing. Of the cases that were closed, 23 were due to insufficient evidence either to support the allegation or to demonstrate that

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2 The process adopted by OAGI with respect to allegations received are contained in Appendix 5 - where the subject of the complaint is staff, and Appendix 6 - where the subject of the complaint relates to ADB-financed activity.
the anticorruption policy had been violated. Six of the 95 investigations related to staff misconduct.

**New in 2007**

**Centralized Screening Process**

In mid-2007, OAGI instituted a centralized screening process to enhance effectiveness and responsiveness. As in prior years, OAGI gathers and screens all documents and information relevant to the allegation before deciding whether the allegation is to be

- Closed (due to insufficient evidence or for lack of substance),
- Referred to other departments or offices, or
- Converted to an investigation.

An allegation is converted to an investigation when it meets four criteria, i.e., it is:

- Within OAGI’s mandate,
- Credible,
- Verifiable, and
- Material.

Figure 3 presents the number of complaints and investigations opened each month in 2007.

**Investigations**

The 95 new investigations opened in 2007 represent a 12% decline over the 108 converted the previous year, mostly as a result of a more effective screening process.
At the end of 2007, substantial inroads had been made into completing outstanding cases from previous years. All cases opened in 2004 were closed. Of the 20 cases that remained open from 2005, 12 were closed—the remaining eight cases all arose from one PPRA and are still being investigated. There remains a total of 21 open investigations from 2006.

As part of its standard fraud and corruption investigation methodology, OAGI conducts investigative missions to interview complainants, witnesses, and persons of interest in the field. During these missions, OAGI staff members also obtain and examine business and financial records and other related documents, in addition to conducting site visits to assess projects. During 2007, OAGI completed 17 investigative missions to 11 member countries. Such missions are not only essential for effective investigations, but they also provide an invaluable opportunity for OAGI to establish its presence in DMCs and to promote fraud and corruption awareness, and to publicize OAGI’s role. Given the primacy of such missions for effective investigations, and the development of a more proactive approach to its investigations, OAGI will endeavor to increase its field investigations in 2008.

OAGI engaged firms, on a retainer basis, to assist in the investigation of specific allegations of fraud and corruption. This arrangement allows OAGI to issue work orders for investigations on a case-by-case basis. OAGI reviews all investigations conducted by the retainer firms and may conduct further investigation following those conducted by retainer firms, where appropriate.

In 2007, OAGI issued 26 work orders to retainer firms, compared to 25 work orders for 2006, 24 in 2005, and 15 in 2004. The overall increase in work orders over the last 4 years is the result of increased case complexity and ongoing staff vacancies, as well as the need to supplement language skills or knowledge of local environments. As OAGI’s workload continues to increase, it is anticipated that more investigations will be referred to retainer firms. During 2008, OAGI will be reviewing its list of retainer firms with a view to expanding the number of firms available to undertake such work.

OAGI closed 83 investigations in 2007, compared with 115 investigations in 2006. It should be noted, however, that the number of investigations referred to the IOC actually increased from 21 in 2006 to 28 in 2007, representing a rise of 33%.

The summary status of reported allegations of fraud and corruption is presented in Appendix 1.

**Nature of Investigations**

Investigations are currently categorized as *fraud, corruption, combination of fraud and corruption, or others.*

As Figure 6 illustrates, in 2007, 36% of cases were categorized as *fraud*, 29% as *corruption*, and 24% as *others*, while 11% involved a combination of *fraud and corruption*. When compared to 2006 (Figure 7), 2007 showed a significant increase in the number of cases that involved both elements of fraud and corruption.

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3 In 2008, OAGI will be reviewing its categorization criteria, along with the review of the case management software in use, as part of its internal review of IT-related processes, to achieve categorization and reporting capability that correlates with the diverse requirements of OAGI.
A case involving both elements of fraud and corruption is placed in the separate category of fraud and corruption. Cases involving instances of abuse, coercion, obstruction to an OAGI investigation, and where they do not, otherwise, fit into the category of fraud or corruption, are categorized as others. The increase in the others cases (indicated in Figure 6) is a result of investigations arising from PPRA findings in 2007 compared to 2006.4

The category of fraud includes cases of misrepresentation, submission of false documents, false claims, and other activities, such as overpricing of bid estimates. Comparative charts in Figures 8 and 9 show that instances of misrepresentation dominated in 2007 and 2006.

The category of corruption includes cases of abuse of position, conflict of interest, collusion, kickback, theft/embezzlement, and bribery and extortion. As shown in Figures 10 and 11, collusion in the procurement process was the most common form of corrupt act, representing 67% of cases in 2007 and 46% in 2006, respectively.

4 Up to and including 31 December 2007, PPRA’s have been categorized as investigations. Commencing 1 January 2008, these shall be categorized as audits. As such, the number of investigations in 2008 shall no longer be directly comparable to prior years.
Sources of Investigations

Staff and OAG audit reports were the two main sources of investigations of fraud and corruption in 2007, representing a combined percentage share of 81%, while 19% of investigations were received from external sources (Figure 12). By way of contrast, Figure 13 shows the comparative experience of prior years.

Figure 12: Sources of Investigations, 2007

<table>
<thead>
<tr>
<th>Source</th>
<th>2007 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB Staff</td>
<td>46%</td>
</tr>
<tr>
<td>Outside Parties</td>
<td>19%</td>
</tr>
<tr>
<td>Audit Reports</td>
<td>35%</td>
</tr>
</tbody>
</table>

Figure 13: Sources of Investigations, 1998–2007

<table>
<thead>
<tr>
<th>Year</th>
<th>ADB Staff</th>
<th>Outside Parties</th>
<th>Audit Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>54%</td>
<td>34%</td>
<td>12%</td>
</tr>
<tr>
<td>1999</td>
<td>51%</td>
<td>34%</td>
<td>15%</td>
</tr>
<tr>
<td>2000</td>
<td>52%</td>
<td>33%</td>
<td>15%</td>
</tr>
<tr>
<td>2001</td>
<td>53%</td>
<td>33%</td>
<td>14%</td>
</tr>
<tr>
<td>2002</td>
<td>54%</td>
<td>32%</td>
<td>14%</td>
</tr>
<tr>
<td>2003</td>
<td>55%</td>
<td>31%</td>
<td>14%</td>
</tr>
<tr>
<td>2004</td>
<td>56%</td>
<td>30%</td>
<td>13%</td>
</tr>
<tr>
<td>2005</td>
<td>57%</td>
<td>29%</td>
<td>14%</td>
</tr>
<tr>
<td>2006</td>
<td>58%</td>
<td>28%</td>
<td>14%</td>
</tr>
<tr>
<td>2007</td>
<td>59%</td>
<td>27%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Figure 14 illustrates the contribution of differing sources of investigations over the years.

Subjects of Investigations

Eighty-five percent of the investigations opened in 2007 related to ADB-financed projects (Figure 15). This proportion is an increase from previous years (Figure 16).

Figure 15: Subject of Investigations, 2007

<table>
<thead>
<tr>
<th>Subject</th>
<th>2007 Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB Staff</td>
<td>11%</td>
</tr>
<tr>
<td>Projects</td>
<td>85%</td>
</tr>
<tr>
<td>Others</td>
<td>4%</td>
</tr>
</tbody>
</table>

Figure 16: Subject of Investigations, 1998–2007

<table>
<thead>
<tr>
<th>Year</th>
<th>ADB Staff</th>
<th>Outside Parties</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>16%</td>
<td>15%</td>
<td>69%</td>
</tr>
<tr>
<td>1999</td>
<td>15%</td>
<td>14%</td>
<td>71%</td>
</tr>
<tr>
<td>2000</td>
<td>14%</td>
<td>13%</td>
<td>73%</td>
</tr>
<tr>
<td>2001</td>
<td>13%</td>
<td>12%</td>
<td>75%</td>
</tr>
<tr>
<td>2002</td>
<td>12%</td>
<td>11%</td>
<td>77%</td>
</tr>
<tr>
<td>2003</td>
<td>11%</td>
<td>10%</td>
<td>78%</td>
</tr>
<tr>
<td>2004</td>
<td>10%</td>
<td>9%</td>
<td>79%</td>
</tr>
<tr>
<td>2005</td>
<td>9%</td>
<td>8%</td>
<td>81%</td>
</tr>
<tr>
<td>2006</td>
<td>8%</td>
<td>7%</td>
<td>82%</td>
</tr>
<tr>
<td>2007</td>
<td>7%</td>
<td>6%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Staff are significant contributors to ADB’s fight against corruption, with their contribution peaking in 2004. Audit reports have, in the last 3 years, become an increasingly valuable tool in the anticorruption effort. Both these sources will continue to be the main targets of OAGI’s work in 2008. Also in 2008, OAGI will increase its outreach to ADB stakeholders to encourage appropriate reporting by “outside parties”.

Figure 14: Number of Investigations by Source, 1998–2007

- ADB Staff
- Outside Parties
- Audit Reports
Investigations involving ADB staff primarily include violations of ADB’s staff Code of Conduct, such as abuse of ADB’s assets and equipment, abuse of ADB benefits (housing/rental subsidy, dependency allowance, and leave entitlements), questionable medical insurance claims, conflict of interest situations, and abuse of power. In 2007, eight cases involved senior staff members.

In contrast, investigations in relation to ADB-financed projects typically involve bidders, consultants, contractors, and suppliers committing acts of collusion, misrepresentation, submission of false documents, bribery, and theft.

Other subjects of investigation in relation to other ADB-financed activities (e.g., ADB internal administration or private-sector activities), comprise the remaining 4%.

When the subject of an investigation is ADB staff, OAGI refers the results of the investigation, with its recommendations, to BPMSD. This is explained in the next section entitled Referrals.

When the subject of an investigation is related to an ADB-financed project, the results of OAGI’s investigation are handed over to the Integrity Oversight Committee (IOC). This stage is further elaborated in the section entitled Sanctions (on page 13).

Referrals

In 2007, OAGI referred six cases to BPMSD for disciplinary action (Table 2), and reported the findings of an additional four cases to BPMSD. BPMSD is the department responsible for imposing disciplinary procedures on staff for any behavior that violates its Code of Conduct. This would include all behavior that comes under the categories of fraud and corruption, or behavior that involves abuse, coercion, conflict of interest, breach of contract, and other misconduct.

A summary of significant cases involving ADB staff can be found in Appendix 3.

<table>
<thead>
<tr>
<th>Nature of Misconduct</th>
<th>Number of Staff</th>
<th>Case Resolution</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abuse of dependency allowance</td>
<td>5</td>
<td>Written reprimands</td>
<td>Headquarters</td>
</tr>
<tr>
<td>Abuse of position</td>
<td>1</td>
<td>Separation</td>
<td>Headquarters</td>
</tr>
<tr>
<td>Fraudulent use of leave and medical benefits</td>
<td>1</td>
<td>Separation</td>
<td>Headquarters</td>
</tr>
<tr>
<td>Improper use of ADB telecommunications facilities</td>
<td>1</td>
<td>Separation</td>
<td>Headquarters</td>
</tr>
</tbody>
</table>
| Medical insurance fraud                  | 2               | Separation      | Country Office – 1  
Harare – 1  
Headquarters – 1 |
| Theft                                    | 1               | Separation      | Headquarters            |
Sanctions

The IOC is the sole authority to determine if the anti-corruption policy has been violated in relation to an ADB-financed activity, and to impose sanctions and/or reprimands accordingly. The sanctioning process is administrative in nature and is not a legal, judicial, quasi-legal, or quasi-judicial process.

The Integrity Oversight Committee

The Integrity Oversight Committee (IOC) determines if bidders, consultants, contractors, suppliers, or other external parties to ADB-financed activity violated the anticorruption policy or procedures, and imposes the appropriate sanctions based on OAGI’s findings and recommendations.

The IOC consists of three regular voting members and three alternate members who fill any vacancies that may occur among the regular members due to absences or conflict of interest.

Members are nominated by the Auditor General and approved by the President. The principal director of the Central Operations Services Office (COSO) or his designated representative and an assistant general counsel advise the IOC. The IOC decisions are by majority vote.

OAGI serves as the Secretariat to the IOC.

Sanctions, by way of debarment from ADB activities, were imposed in 2007 as shown in Table 3.

Table 3: Entities Sanctioned by the Integrity Oversight Committee in 2007

<table>
<thead>
<tr>
<th></th>
<th>1–7 years</th>
<th>10 years</th>
<th>Indefinitely</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms</td>
<td>60</td>
<td>1</td>
<td>0</td>
<td>61</td>
</tr>
<tr>
<td>Individuals</td>
<td>15</td>
<td>0</td>
<td>33</td>
<td>48</td>
</tr>
</tbody>
</table>

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

Table 4: Sanctions (since 1998)

<table>
<thead>
<tr>
<th>As of 31 December 2007</th>
<th>Firms</th>
<th>Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total declared ineligible to participate in ADB-financed activities</td>
<td>243</td>
<td>227</td>
</tr>
<tr>
<td>Reinstated upon appeal</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Reinstated upon expiry of minimum sanction period</td>
<td>45</td>
<td>23</td>
</tr>
<tr>
<td>Currently ineligible to participate in ADB-financed activities</td>
<td>196</td>
<td>202</td>
</tr>
</tbody>
</table>

Appeals

ADB has a formal mechanism, which allows individuals and entities that have been the subject of a sanction from the IOC, to appeal the imposition of that sanction to the Sanction Appeals Committee (SAC). SAC is comprised of three of ADB’s Vice-Presidents. If it sees fit, SAC may reduce or lift sanctions, as well as require the IOC to reconsider a case. The Auditor General is the Secretariat to SAC. The appeals process is also administrative in nature.

Filing and Review of Appeals

The individual or entity that has been the subject of a sanction

- Has 90 days to appeal that decision, and
- Must appeal in writing, stating clearly and concisely the reason(s) for the requested review of IOC’s decision.

SAC, however, will only consider those appeals that

- Include new information that would have been relevant to the imposition of the sanction by IOC, and
- This new information was not known, or could not have reasonably been known, to the individual or entity at the time that explanations were sought by OAGI.
The Secretariat reviews all letters of appeal to ensure that only those appeals that meet these strict criteria are heard by SAC. In 2007, this review process was reassessed and enhanced to rationalize processes, that is, to more critically consider and record letters of appeal and to increase the levels of transparency and accountability.

During 2007, the Secretariat received appeals from eight individuals and 12 entities—20 appeals in total—in relation to a total of 12 investigations. The total of 20 appeals received for 2007 is a 15% increase over that received during the previous 12 months. All eight individuals, however, were directors of one or other of the entities that had been sanctioned. Only one of these appeals, made by an entity alone, met the appeals criteria. SAC considered—but later rejected—this appeal.

The remaining 19 appeals were rejected by the Secretariat because they did not provide any new evidence that would have been relevant to the IOC when it made its decision. As in previous years, these appellants simply referred to their previous good works or the importance of ADB projects to their businesses and sought a reduction in sanction because of the impact of this on their income. In almost all of these letters of appeal, the applicants generally admitted the breach of the anticorruption policy, which led to the sanction being imposed.

Project Procurement-Related Audits and Other Activities

Project Procurement-Related Audits

The objectives of a PPRA are to
- Identify whether the procurement of project goods and works complied with ADB’s Procurement Guidelines and covenants in the applicable Loan/Project Agreement;
- Determine whether project contracts were implemented according to their specifications;
- Ensure that ADB funds were used for their intended purposes; and
- Recommend improvements to internal controls to mitigate opportunities for fraud, corruption, or abuse in ADB-financed projects.

As part of a PPRA, internal control weaknesses over project administration—areas that expose the project to potential misappropriation of resources—are identified. The overall objective of PPRAs is to help prevent and detect corruption and fraud as defined under the anticorruption policy. This is achieved, in part, by increasing awareness on the importance of having robust financial and management systems and ensuring appropriate and efficient use of ADB resources.

Five PPRAs were conducted in 2007 in the People’s Republic of China (PRC), Indonesia, Lao People’s Democratic Republic, Nepal, and Pakistan. Significantly, these PPRAs were conducted jointly with the respective SAIs of DMCs. OAGI will continue to seek opportunities to cooperate and collaborate with SAIs in order to combat fraud and corruption in DMCs. Appendix 4 highlights the PPRA scope and key findings.

Twenty-eight of the investigations opened in 2007 were by-products of PPRAs conducted in 2006. PPRAs have been a useful tool in identifying instances of fraudulent and corrupt practices. It is hoped that SAI participation in PPRAs will result in tangible examples and experiences in the area of fraud and corruption, which are successfully disseminated among SAIs and within DMCs in a way that frustrates potential perpetrators.

OAGI plans to conduct six PPRAs in 2008 in collaboration with SAIs. It also plans to conduct a workshop for the participating SAI upon completion of each PPRA. The workshops aim to share knowledge on fraud prevention and detection techniques, and best practices from audit experiences. OAGI also plans to share the PPRA audit approach, audit checklists, and lessons learned from other PPRA results. Feedback from SAIs about their unique challenges will be sought in order to enhance future PPRA approaches. PPRA reports issued from January 2008 onwards shall be made publicly available.

### Table 5: Project Procurement-Related Audits in 2007

<table>
<thead>
<tr>
<th>Loan No.</th>
<th>Project</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan 1732-NEP(SF)</td>
<td>Rural Electrification, Distribution, and Transmission Project</td>
<td>Nepal</td>
</tr>
<tr>
<td>Loan 1672-PAK(SF)</td>
<td>Malakand Rural Development Project</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Loan 2116-PRC</td>
<td>Dali-Lijiang Railway Project</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>Loan 1844-LAO(SF)</td>
<td>Second Education Quality Improvement Project</td>
<td>Lao PDR</td>
</tr>
<tr>
<td>Loan 1909-INO(SF)</td>
<td>Poor Farmers’ Income Improvement Through Innovation Project</td>
<td>Indonesia</td>
</tr>
</tbody>
</table>

---

5 The number of investigations opened as a result of PPRAs conducted in 2007 has yet to be finalized.
The rising costs of professional fees, untested expertise and access of local consultants, and security constraints continue to be some of the main challenges in successfully conducting PPRAs.

Special Performance and Financial Audit

On an exceptional basis, and at the request of the Central and West Asia Department (CWRD) and the Office of the President, OAGI provided independent oversight of a performance and financial audit of four TA projects in Country A. ADB’s country strategy for Country A focuses on building and rehabilitating roads, power transmission lines, irrigation infrastructure, and on governance and capacity building. Four environment and natural resources TAs were provided as pilot studies and/or demonstration projects. ADB was alleged to have wasted money, time, and credibility on account of these TAs. It was further alleged that some components were poorly managed and, thus, did not deliver results and that reports on the inappropriateness of the TAs had not been taken seriously. ADB commissioned a full and independent performance and financial audit on these TAs, which OAGI coordinated and supervised.

The audit assessed whether the
- Procurement process for awarding contracts followed ADB’s Procurement Guidelines, Guidelines on the Use of Consultants, and governing TA documents;
- TAs were implemented in accordance with governing TA documents;
- Outputs were timely delivered/implemented in accordance with governing TA documents;
- TA funds were used for their intended purposes; and
- Management and supervision of the TAs was efficient and effective.

OAGI also fielded a mission to Country A’s capital to
- Oversee the progress of the audit;
- Review the findings of the external independent auditor;
- Join site visits for an on-the-ground perspective of the projects and the allegations made; and
- Meet with staff, consultants, and beneficiaries to better understand the projects and how they were managed.

Overall, the objectives and tasks defined for all four TAs were relevant to Country A’s development priorities, and a number of activities under the TAs were performed satisfactorily. However, the audit identified deviations from the original budget allocations to specific line items due to changes in scope, even though the total budget had not been exceeded, but was unable to find records of approvals of such variations.

The audit also found shortcomings in a number of operational areas, particularly where there was
inadequate management and oversight by the TA supervising unit. There was poor maintenance and filing of project documents, such as those related to the recruitment of consultants, contract variations, changes in scope, or documents related to training and seminars. In several cases, procurement records and supporting documents, and documents to substantiate expenditures on training and workshops under some of the projects were not available. Compliance with ADB’s established rules and procedures, including procurement guidelines and project administration instructions, was insufficient, while internal controls in the TA supervising unit at the resident mission were weak.

The audit concluded that, of the four TA projects, two achieved their objectives, while the other two only partially achieved them. However, some critical targets were not met. Conceptually, the TAs were broadly in line with ADB-wide priorities on areas, such as the environment, clean energy, general capacity building, and poverty reduction. Nonetheless, with the benefit of hindsight, some of the components were probably unnecessary, unwarranted, or untimely. In order to ensure sustainability and continuity, the experience gleaned from pilot projects and strategic work performed should be replicable. With these TAs, specific implementation arrangements for some components, the chosen pilot testing sites, as well as the measures suggested, may have been unrealistic or inappropriate.

This special performance and financial audit consumed a sizeable part of OAGI’s staff resources and was expensive to carry out. CWRD subsequently prepared an action plan to ensure that the facilities purchased under the TA projects are put to good use, and that actions to increase their sustainability are implemented. Upon receipt of comments to the audit findings, OAGI initiated a follow-up review to seek further information on potential red flags. It is anticipated that this may lead to further work in 2008.

Recommendations Made

Based on the outcome of OAGI’s investigative findings, PPRAs, and other activities, OAGI proposes recommendations to management, operational departments, executing agencies (EAs), and other entities. These recommendations are intended to:

- Strengthen internal and external control mechanisms, procurement and financial management practices, and project implementation arrangements to prevent fraud and corruption in ADB-financed activities; and
- Increase transparency and overall effectiveness of ADB’s operations.

Recommendations from Special Performance and Financial Audit

The audit report and OAGI’s internal review resulted in various recommendations, including:

- Project administration and budget training for staff of a country office;
- Stringent and regular TA supervision, monitoring, reporting, and record keeping;
- No cash advances to be transferred into staff accounts;
- To do away with staff senior advisor assignments to Governments while working for ADB to avoid potential conflicts of interest; and
- To follow up outstanding operational activities to ensure sustainability of projects.

In addition to the audit findings and OAGI’s recommendations that were shared with departments concerned, CWRD developed an action plan to correct deficiencies and address the identified shortcomings.
# Recommendations Arising from Investigations

<table>
<thead>
<tr>
<th>To</th>
<th>Country</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headquarters</td>
<td></td>
<td>Compensation and Benefits Division (BPCB) to reiterate that staff are obliged to report changes that impact on their eligibility for staff benefits, <em>including</em> those that may adversely affect their benefits. Failure to do so constitutes misconduct, which could lead to sanctions and disciplinary action.</td>
</tr>
<tr>
<td>Country B</td>
<td></td>
<td>Put in place mechanisms and procedures that require independent and physical verification of a project’s accomplishments before a project completion report is accepted.</td>
</tr>
<tr>
<td>Country C</td>
<td></td>
<td>Remind staff that complaints of alleged fraud or corruption must be made in good faith and, preferably, substantiated. Lodging a false complaint as a means of retaliation or for personal reasons constitutes misconduct and is subject to separate disciplinary action.</td>
</tr>
<tr>
<td>Country D</td>
<td></td>
<td>Ensure that a debarred audit firm will not be involved in any audits of ADB projects, and to carefully evaluate any future proposals that include financial statements audited by the debarred audit firm.</td>
</tr>
<tr>
<td>Country E and G</td>
<td></td>
<td>Remind staff that all allegations of fraud and corruption should be lodged on a timely basis.</td>
</tr>
<tr>
<td>Country F</td>
<td></td>
<td>Reiterate to staff that complaints may not be discussed with third parties except on a need-to-know basis in accordance with the relevant procedures. This is to protect the confidentiality of the complainant. Consequently, circulation of e-mails is to be as restricted as possible.</td>
</tr>
<tr>
<td>Country G</td>
<td></td>
<td>Stop any further disbursements to Firm X until it is confirmed to legally exist, and the completion of its contract with the executing agency is verified.</td>
</tr>
<tr>
<td><strong>Operational Departments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff</td>
<td></td>
<td>Avoid any contact with a named training company, due to its previous unprofessional dealings with ADB.</td>
</tr>
<tr>
<td><strong>Executing Agencies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country H</td>
<td></td>
<td>Discuss the principles of ADB’s Procurement Guidelines and anticorruption policy with named local consulting firm to ensure it understands and conforms to these.</td>
</tr>
<tr>
<td>Country G</td>
<td></td>
<td>Emphasize due diligence and the need to address all indications of irregularity in the procurement process expeditiously.</td>
</tr>
<tr>
<td>Country B</td>
<td></td>
<td>Improve internal controls over its procurement and disbursement practices – examples were provided.</td>
</tr>
<tr>
<td><strong>Other Parties</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country D</td>
<td></td>
<td>Advised an institute of certified public accountants of its findings against its member audit firm, and recommended the institute to review the firm’s actions against its rules, regulations, and ethics.</td>
</tr>
</tbody>
</table>
## Recommendations from PPRAs

<table>
<thead>
<tr>
<th>To</th>
<th>Country</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>Consider outsourcing the procurement function of the executing agency (EA) to a qualified procurement agency within a DMC.</td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>Consider providing technical assistance to establish a specialized procurement unit in a DMC for ADB projects.</td>
<td></td>
</tr>
</tbody>
</table>
| Country N | ▪ Suspend disbursements on project and cancel remaining portion of financing.  
▪ Evaluate and address environmental and safety aspects that arose out of irregularities and noncompliance in the projects. |
| Country N, P, Q | ▪ Familiarize key project staff and the SAI with ADB’s *Procurement Guidelines* and loan disbursements handbook. |
| Country P | ▪ Ensure that the EA’s project procurement plan and administrative memo include considerations of timely procurement of goods and appropriate storage and management of goods. |
| Country Q | ▪ Properly code and regularly review contract data under each project contract summary sheet.  
▪ Review missions by operational department should ensure that other ongoing loans comply with ADB’s *Procurement Guidelines*. |
| Country M | ▪ Perform due diligence on key prequalification and bidding documents before awarding contracts.  
▪ Include a standard insurance clause to cover project interests in standard bidding documents.  
▪ Coordinate with one of the EA’s stakeholders to replenish counterpart fund shortage.  
▪ Do not advance funds to bidders before the contract is signed. |
| Country N | ▪ Ensure that the project management unit, relevant country authority, and engineer consultant develop a future course of action to rectify irregularities identified, apply contract clauses in relation to contractor responsibilities and penalties, perform proper physical check of project’s deliverables, and execute damage proceedings as per contract terms.  
▪ Determine appropriate compliance and delivery before authorizing project payments.  
▪ Prepare a fixed asset register to account for project assets. |
| Country P, Q | ▪ Coordinate with the relevant Ministry to ensure counterpart funds are released as required. |
| Country P | ▪ Hold pre-bid meetings with perspective bidders to ensure that specifications in bid documents are properly understood.  
▪ Update cost estimates for ADB approval before processing bid invitations.  
▪ Account for cost savings (given that contracts awarded were much lower than cost estimates) and determine how best to utilize remaining loan.  
▪ Return bids to unsuccessful bidders as soon as successful bid is selected.  
▪ Include time-bound action plans in relation to land acquisition challenges and potential security concerns.  
▪ Provide adequate storage for, and management of, project assets. Project assets should be used solely for project-related purposes.  
▪ Ensure the proper handover of project knowledge, files, and ADB procurement guidelines to both new project staff and new evaluation committee members.  
▪ Reiterate to project offices the need for sound project administration, including filing systems. |
| Country Q | ▪ Implement internal control procedures to ensure that procurement process is transparent and conforms to ADB guidelines.  
▪ Strengthen controls over bidding process, including the *timing* of the bid opening, *content* of bid documents, bidding *criteria*, *bid evaluation* tools, and documentation of *rationale* for bid selection.  
▪ Contractors should submit insurance certificates and properly renew performance bonds.  
▪ Record all revenues and expenses, especially sales of bidding documents.  
▪ Improve record filing and management; implement a document register.  
▪ Enforce strict compliance with contractor’s contractual specifications and hold contractors accountable for delays and poor quality of work.  
▪ Hold engineer consultant accountable for certifying progress payments without adequate supervision or physical inspection.  
▪ Report and document project delays on a timely basis.  
▪ Train staff in contract supervision and monitoring. |
New in 2007

Working Together to Prevent Fraud and Corruption

Lessons Learned

As a result of one case wherein ADB found that the authorized representative of a firm was using an alias to commit fraud, COSO took immediate action to strengthen ADB’s requirements during contract negotiation. COSO now requires the winning consulting firm to provide

- A copy of the photo/signature passport page(s) of their authorized representative(s) and
- Relevant written authorization for the representative(s) to negotiate and sign the contract with ADB on behalf of the firm.

In addition, COSO is considering incorporating other appropriate due diligence measures to enhance the integrity of ADB’s recruitment processes.

Raising Awareness on the Damaging Effects of Corruption

A robust campaign to inform and educate is a key element in deterring fraud and corruption and creating an attitude of watchfulness.

OAGI continued to build greater awareness of the anticorruption policy, Integrity Principles and Guidelines, and related procedures among staff, ADB partners, and relevant stakeholders to help them better detect, deter, and bring to OAGI’s attention concerns of fraud, corruption, and abuse by staff.

ADB Staff

In 2007, OAGI presented an overview of the anticorruption policy and procedures to professional staff, national officers, and administrative staff at four induction programs for newly recruited staff.

OAGI conducted Corruption and Fraud Awareness Seminars for ADB Board of Directors and ADB resident mission staff in four DMCs. At these seminars, OAGI presented

- The anticorruption policy,
- The mission and function of OAGI,
- How to report concerns of fraud and corruption, and
- Lessons learned from OAGI’s PPRAs.

OAGI also conducted 16 anticorruption briefings for new professional staff.

These sessions ensure that all new staff are aware of the anticorruption policy and OAGI’s function from the start of their careers with ADB. OAGI will continue training ADB staff to ensure that highest ethical standards are adhered to.

Partners

OAGI provided on-the-job training on fraud detection and prevention to SAI representatives and local consultants that participated in 2007 PPRAs. In addition, OAGI conducted a seminar on fraud detection and prevention for auditors at the China National Audit Office at their request.

OAGI continued the implementation of a RETA project and held two regional seminars on anticorruption in the PRC and Indonesia. The objectives of the regional seminars were to

- Increase borrowers’ and executing agencies’ awareness of, and compliance with, the anticorruption policy, Integrity Principles and Guidelines, and related procedures;
- Enhance their capacity to detect and prevent fraud and corruption in ADB-financed projects; and
- Ensure that ADB projects and staff members adhere to the highest ethical standards.

The 2.5-day seminars, which were attended by 104 participants from 21 DMCs, covered the areas of governance, anticorruption, financial management, and procurement issues. They gave participants a platform to exchange information about their anticorruption efforts. The participants identified immediate concerns and outlined their plans to better deal with fraud and corruption in the future.

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During the year, OAGI also continued administering the implementation of another RETA project. Three of the four regional workshops under this RETA were completed during the year. OAGI reviewed the course materials for these workshops, observed the classes for the fraud module in one of the regional workshops, and conducted a session on the anticorruption policy for 30 SAIs participants from 10 DMCs.

OAGI also conducted corruption and fraud awareness briefings to four business delegations that visited ADB and presented the anticorruption policy to DMC officials during an orientation program in October 2007.

**Publication of Information**

OAGI's 2006 Annual Report was disseminated in February 2007 within ADB’s operational departments and country offices, and to various organizations that rally behind the cause of good governance, anticorruption, and transparency. ADB issued a press release when the Annual Report was posted on ADB’s website. It was downloaded 6,837 times in 2007.

In July 2007, OAGI revamped its website (www.adb.org/integrity) to enhance user-friendliness. In addition, OAGI

- Posted photos from PPRAs and presentations delivered at the regional anticorruption seminars;
- Added frequently-asked questions about ADB’s efforts to prevent and detect fraud and corruption;
- Included useful information about OAGI’s work; and
- Expanded the resource center.

There is now a more prominent button on the homepage to report allegations of fraud and corruption.

OAGI’s intranet, which is accessible to authorized staff, provides an updated list of sanctioned firms and individuals. In August 2007, OAGI revamped the site to include a user-friendly, one-stop-shop search facility that provides live links to terrorist lists compiled by the United Nations Security Council and the US Government.

OAGI reprinted its brochure on anticorruption policy and Integrity Principles and Guidelines and is in the process of having it translated into several languages, such as Bahasa Indonesia, Chinese, Khmer, and Russian.

Throughout the year, OAGI issued advisories to staff via *ADB Today*, an internal news bulletin. These advisories were on dealing with national blacklists in ADB projects, blocking scam e-mails, reporting allegations of fraud and corruption, checking the sanctions list before approving any contracts, and updates to the sanctions list. It also issued a joint advisory with the Office of Administrative Services with regards to professional staff obligation to pay value-added tax (VAT) in stores and restaurants in the Philippines.

**Enhancing OAGI Capacity**

OAGI continues to work to develop the skills of its staff, recruit the most qualified people for vacancies, and improve the division’s capacity to effectively respond to allegations of fraud and corruption. Furthermore, given OAGI’s increasing workload and complexity of many of the matters that it considers, it is essential that OAGI staff keep abreast of the latest developments in the international investigations field.

Training undertaken by OAGI staff during the year was as follows:

- One staff member undertook an interviewing training workshop;
- Another staff member attended a seminar to assess intelligence gathering and analysis systems; and
- In a first for OAGI, all professional and national staff engaged in the assessment and investigation of complaints attended a 2-day self-assessment and team-building workshop.

In early 2008, OAGI will be drawing on its own internal resources to conduct an Investigative Interviewing workshop for staff. The curriculum for this workshop will include interviewing principles, cognitive interviewing, and conversation management.

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7 RETA 6253-REG: Strengthening the Audit Capability of Members of the Asian Organization of Supreme Audit Institutions (ASOSAI).
8 The first regional workshop was conducted in 2006.
This will be followed later in the year by a similar internal workshop on contemporary investigations methodology and practice.

Operationally, in the latter half of 2007, OAGI adopted the general practice of electronically recording its interviews with complainants, witnesses, suspects, and other persons of interest. The electronic recording of interviews has become standard practice in many jurisdictions. This tool helps to guard the rights of suspects and witnesses. It can also help protect the interviewer against unfounded allegations of impropriety. This is especially the case where the investigator is working alone and there are no independent witnesses to the interview—a situation routinely encountered by OAGI staff.

A recorded interview provides the best evidence of what was said during that interview. It is also consistent with the general policy framework of the Integrity Principles and Guidelines and the high ethical standards ADB demands of its staff. It provides a permanent, accurate, and reviewable record of the interview.

During 2007, OAGI recruited several new staff from a range of criminal and corruption investigations backgrounds, including investigations management and education, as well as staff with excellent analytical, development, and administrative skills. For 2008, this process will continue with the targeted recruitment of highly qualified investigators from DMCs or with specific language or other required technical skills.

While the reactive assessment and investigation of complaints and allegations will always remain central to the work of OAGI, in contemporary practice there is growing move toward complementing this traditional approach with intelligence-driven investigations. Such investigations will be designed to target specific problem areas to foster compliance with the three objectives of the anticorruption policy and to proactively detect fraudulent and corrupt practice in ADB-financed activity.

Research on this project has already commenced. During 2008, OAGI will be developing strategies to develop its intelligence gathering and analysis capacity. In the 10 years that OAGI with its predecessor, the Anticorruption Unit, has been in operation, significant data on fraud and corruption has been gathered, which will provide a sound basis on which to build a fraud and corruption intelligence system.

From an investigations management perspective, and as a part of its ongoing commitment to best practice, OAGI has revisited its established complaints assessment process. With the appointment of a dedicated staff member to assess complaints, OAGI has now centralized these procedures to make them more effective and responsive. OAGI is currently critically reviewing its case management procedures, with a view to updating its case management information system. Improved case management will be a key priority for 2008.

**Interagency Coordination**

As the primary role of OAGI is to investigate allegations of fraud and corruption in ADB-financed projects, by definition, OAGI’s work is international and multifaceted. Given the common goals of all multilateral development banks (MDBs) and the environments in which OAGI operates, it follows that OAGI will face similar problems in terms of fraud and corruption investigation. In accordance with the recommendations of the International Financial Institutions (IFI) Anticorruption Task Force, it is vital that the various MDBs work together to harmonize their approaches to investigations and to share information. The Integrity Principles and Guidelines, which the President approved in November 2006, is an example of the effectiveness of such cooperation.

During 2007, OAGI continued to actively participate in the MDB Integrity Forum. The Integrity Forum comprises the heads and senior staff of the investigative units of ADB, the African Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, and the World Bank. It provides an excellent vehicle to continue the work of the IFI Task Force in its endeavors to harmonize investigative policies, practices, and procedures.

OAGI attended Integrity Forums in Vienna and Tunis during 2007. The range of topics considered
during the forum included ongoing harmonization matters, whistle-blowing, information exchange, relevant legal matters, and cases of interest. In February 2008, for the first time, ADB will host the Integrity Forum in Manila.

The Integrity Forum is evolving from being just a forum for the development of harmonized policy and for the exchange of ideas and information. In 2007, forum participants started working together to explore ways to address operational and investigative issues of mutual concern as a unified group.

Internationally, two staff members also attended the 8th International Investigators’ Conference hosted by the European Anti-Fraud Office (OLAF) at the United Nations offices in Vienna. Such conferences and forums continue to provide excellent opportunities to develop professional networks with the investigative divisions of other international organizations and MDBs, and to facilitate the exchange of ideas and information on contemporary investigative practices and procedures.
Challenges

Workload and Resources

OAGI expects the number and complexity of complaints to increase, each of which requires careful, thorough, and discreet handling. Ideally, each investigator should work with one investigative analyst. OAGI has requested for an additional support staff for 2008 and will continue to engage staff consultants, as required, to complement its workforce and to ensure that professional staff members with the appropriate skills mix are recruited for vacant positions.

OAGI will also face significant constraints in sourcing qualified and affordable external auditing services for the conduct of the six PPRAs planned in 2008. PPRAs are planned for projects located in Afghanistan, India, Kyrgyz Republic, Mongolia, Sri Lanka, and Viet Nam. Careful forward planning and tough negotiations will be required to successfully recruit appropriate external local expertise to assist with the conduct of the PPRAs. Additionally, security constraints may impact on the implementation of certain PPRAs. It is acknowledged that even the best forward planning may be thwarted. Thus, OAGI anticipates that it may need to defer/replace certain PPRAs in recognition of the aforementioned constraints.

A big challenge for OAGI as it enters its eighth year of operation is to update its information technology systems. The current case management system requires supplementing to enable it to generate data based on complex sets of criteria. This is especially critical as OAGI grows and higher levels of information technology security are required.

Furthermore, OAGI plans to significantly enhance its intelligence storage and analysis capacity. OAGI has submitted a modest budget request in 2008 to support limited modifications to its existing information technology systems, but more will be required in future years.

ADB’s Internal Governance

Staff must be at the forefront of its anticorruption drive and must understand their responsibility to abide by the highest ethical standards. However, with the increasing bombardment of information through electronic highways and other channels, it is a challenge to ensure staff understand and absorb what is expected of them, as well as understand the consequences of not meeting those expectations.

The consequences of staff not adhering to behavior and disclosure requirements expose them to disciplinary procedures and sanctions. On the one hand, staff have to be vigilant of their own conduct; on the other, they are to identify and report unethical conduct of other staff when appropriate. ADB, through OAGI and BPMSD, is also obliged to ensure that appropriate consequences are delivered fairly and promptly.

The challenge is to ensure that every staff is proactive in preventing unethical behavior and fraud and corruption within ADB and in any activity financed by ADB. The number of complaints lodged by staff, while still significant, decreased in 2005 through 2007, after achieving a high in 2004 (Figure 14, page 11). Additional effort must be made to effectively ensure that anticorruption remains at the forefront of staff consciousness in order to sustain their vigilance and watchfulness.

9 These are underpinned by the anticorruption policy 2 July 1998, Integrity Principles and Guidelines November 2006, and the Code of Conduct as outlined in AO 2.02, Section 4.
Recognizing this challenge, in the short term, OAGI plans to review and supplement, where necessary, the existing anticorruption policy and Integrity Principles and Guidelines with more detailed implementation procedures that govern ADB’s stand on fraud and corruption in order to enhance accessibility, readability, and clarity. In 2008, OAGI plans to release a handbook for staff and to increase its outreach efforts to staff in a variety of ways. (See also the section on Raising Awareness on the Damaging Effects of Corruption on page 20 and the following section on Whistle-Blower Protection.)

**Implementing Effective Measures to Prevent Fraud and Corruption in ADB Projects**

While an effective OAGI may be considered central to ADB’s anticorruption drive, a comprehensive, holistic approach to anticorruption will require much more. A comprehensive approach to anticorruption must incorporate “a widely understood policy framework, consistent systems and processes among operational groups, defined responsibilities, and effective educational, training, and communications arrangements.” OAGI recognizes the need to work more closely with other integrity-oriented parts of ADB, such as the Office of the General Counsel, and the governance functions within the various operational departments and the Regional and Sustainable Development Department (RSDD).

In this way, ADB will be able to maximize efficiencies to ensure that the project cycle inherently incorporates anticorruption elements in all its stages. While acknowledging that consequences of fraud and corrupt practices must be clearly spelt out at the planning stage, and that checks and balances should be incorporated into project implementation and monitoring to identify and deter such practices, OAGI has, thus far, not lent its investigative and audit expertise significantly to these areas. Furthermore, OAGI has not yet contributed to promoting the incorporation of anticorruption measures into country partnership strategies (CPS), which also present opportunities to address anticorruption measures for ADB projects.

While OAGI’s mandate includes the prevention of fraud and corruption, and the provision of anti-fraud and corruption training and the promotion of fraud and corruption awareness, current staffing levels constrain OAGI’s activities in this area. It is, therefore, necessary for OAGI to develop more innovative methods of intervention that rely less on continuing staff involvement and maximize collaboration with other integrity-oriented parts of ADB. In 2008, OAGI management will prioritize the development and introduction of the necessary innovations.

As with prior years, in 2008, OAGI will continue to deliver the RETAs (described more fully on page 20) and to utilize its PPRAs also as a means to enhance prevention and detection of fraud, corruption, and other forms of abuse. PPRAs will also continue to be used as a catalyst for training DMCs as will more conventional platforms, such as seminars and workshops. In 2008, OAGI plans to conduct six PPRAs.

**Whistle-Blower Protection**

ADB’s Integrity Principles and Guidelines provide that ADB will, within the limits of its abilities, protect any party that conveys in good faith a concern, allegation, or evidence of fraud, corruption, or abuse. They also provide that OAGI will use its best efforts to encourage and protect whistle-blowers and witnesses and will protect their identities from unauthorized disclosure throughout and following an investigation.

ADB is, however, very limited in the steps it can take to protect whistle-blowers and witnesses who are not ADB staff. Its processes for implementing the anticorruption policy are administrative in nature—as such, the level of protection ADB accords to the whistle-blower is not as comprehensive as it might be if there were legal or judicial processes. ADB cannot interfere should the whistle-blower or witness be subject to unique legal processes in any of ADB’s member countries; provisions of national whistle-blower legislation, if any, vary greatly among ADB member countries. There are also countless subtle

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11 ADB does not currently have a specific Whistle-blower Policy as such. In keeping with global trends, in the future, ADB may need to address whether a dedicated policy is required.
ways to undermine the whistle-blower or witness, over which ADB would have no control.

OAGI treats the source of any allegation or evidence with utmost confidentiality. OAGI limits the circulation of any information regarding an investigation strictly to those with a need to know and protects the identity of the individual who makes a report to OAGI. Unauthorized disclosure by staff of the identity of a whistle-blower renders him/her exposed to disciplinary procedures. OAGI has observed that staff (at all levels) have limited understanding of their responsibilities with respect to whistle-blower protection.

Therefore, in 2008, OAGI plans to deliver, in cooperation with RSDD and BPMSD, seminars that will train staff in, among other things, the appropriate processes to employ when receiving and handling allegations of fraud and corruption, which will enhance OAGI’s ability to maintain confidentiality and protect whistle-blowers.

OAGI Independence and Administration

In OAGI’s 2006 Annual Report, OAGI identified that maintaining OAGI’s independence is imperative to its ability to effectively discharge its responsibilities. OAGI was housed within OAG to provide the greatest possible and fully effective independence from ADB’s operations. While combining the auditing and investigative functions under OAG has operated well enough to date, consideration should be given to observing recommended best practices for MDBs. In his report, Independent Panel Review of the World Bank Group Department of Institutional Integrity (September 2007), Paul Volcker noted and upheld the acceptability of the “standard model” as practiced by international institutions. The so-called “standard model” is for the integrity function to be a free-standing unit, with a direct reporting line to the President and a concurrent reporting line to the Audit Committee of the Board.

As noted in OAGI’s 2006 Annual Report, this issue will need to be considered by ADB in light of the ever-increasing demands and expectations that are placed on the integrity and auditing functions of our institution, and in keeping with best practices.
### Appendix 1

#### STATUS OF REPORTED FRAUD AND CORRUPTION INVESTIGATIONS
#### AS OF 31 DECEMBER 2007

<table>
<thead>
<tr>
<th>Year Received/Status</th>
<th>Total</th>
<th>Loan</th>
<th>Technical Assistance</th>
<th>ADB Staff</th>
<th>Others</th>
<th>Grant</th>
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<td>7</td>
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<td>17</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
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<tr>
<td>Total</td>
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<td>497</td>
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<td>121</td>
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<td>76</td>
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<td>497</td>
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<td>121</td>
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* In addition, 54 cases from 2004–2006 were closed in 2007.
## CLOSED INVESTIGATIONS

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<tr>
<th>Year Received</th>
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<th>Closed After Appeal</th>
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<td>17</td>
<td>8</td>
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<td>24</td>
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<td>–</td>
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<td><strong>6</strong></td>
<td><strong>23</strong></td>
<td><strong>128</strong></td>
<td><strong>64</strong></td>
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* BPMSD = Budget, Personnel and Management Systems Department.  
** – = none
### SIGNIFICANT CASES INVOLVING ADB-FINANCED ACTIVITIES CONCLUDED IN 2007

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<td><strong>FRAUD</strong></td>
<td><strong>Misrepresentation</strong></td>
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| Firm A submitted a proposal in association with Firm B, which included a consultant’s curriculum vitae (CV) that misrepresented his employment status. | - Firm A was the lead firm in the bid proposal that included a consultant’s CV provided by associate Firm B.  
- Firm B confirmed that the consultant had worked for them since 2004 and explained that because the consultant did not work with any other consulting firm, it considered him to be a full-time regular employee for the purpose of CV certification.  
- Firm B also claimed that it did not see the bidding documents that explained ADB’s definition of full-time regular employee.  
- Neither Firm A nor Firm B’s action was considered fraudulent. | - The IOC did not impose remedial action on any party in this case.  
- Firm A was notified that it failed to meet the highest standard of ethics based on its submission of CV and failed to address the issue of consultant’s full-time employment certification.  
- Firm B was cautioned to ensure it follows ADB’s definition of full-time regular employment when certifying any CVs for ADB-financed activity. |

| An Executing Agency (EA) of an ADB project disqualified seven proposed experts of four firms as they were employed by the EA, and their CVs omitted their status as government officials. | - Seven proposed experts engaged in fraudulent practices by omitting their status as government officials in their CVs.  
- It was noted, however, that it is a prevalent practice in the country concerned for government officials to work as consultants because of low government wages.  
- The consultants would have been eligible had they applied and obtained a leave of absence. However, this was not done.  
- There was insufficient evidence for the IOC to determine that the four firms knowingly or recklessly misrepresented the CVs of the proposed experts.  
- The CVs accurately reflected the proposed experts’ positions and experience, with the exception of their status as government officials, and it would not have been possible for the firms to detect the omissions even through reasonable due diligence. | - The seven proposed experts were reprimanded, but not sanctioned due to mitigating circumstances described.  
- No action was taken against the four firms. |
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| A firm manipulated the CVs of seven proposed local experts in a bid for consultancy services for construction supervision of civil works, which ADB is financing. | - OAGI found evidence to conclude that the three experts were at fault.  
- Expert A misrepresented his work experience; Expert B misrepresented the name of his employer, his work experience, and year of graduation; while Expert C misrepresented his work experience and graduation year.  
- The firm failed to uncover the misrepresentations in the CVs of the three experts. | - The IOC sanctioned Expert A for 2 years.  
- The firm and Experts B and C were sanctioned for 3 years. |
| The CV of the proposed expert had some inconsistencies.                     | - Firm A, the associate firm of Lead Firms S and T, proposed an expert and identified him as a regular, full-time staff.  
- Firm B, the associate firm of Lead Firms X and Y, also proposed the same expert as its full-time staff.  
- In response to OAGI’s inquiry, the expert stated, among other things, that he was not a full-time staff of both associate Firms A and B and that his signatures on the submitted CVs were scanned.  
- OAGI sought clarifications from both the associate firms on the expert’s response. Both firms were unable to provide comments and any documents to refute the statements of the expert.  
- An aggravating factor was that the Managing Director of Firm A did not cooperate with the investigation.  
- There was insufficient evidence for the IOC to determine that the expert was engaged in fraudulent practice.  
- OAGI did not find evidence to show that the four lead firms knowingly or recklessly included the false CV in their proposals to gain favorable evaluation results. | - The IOC declared the two associate firms and the General Director of associate Firm B ineligible to participate in ADB-financed activity for 3 years.  
- The Managing Director of associate Firm A was sanctioned indefinitely. |
<p>| An ADB project department advised OAGI that an ADB member government had blacklisted 13 construction companies that had bid on an ADB-financed project. | - OAGI conducted its own investigations and found that 11 of the 13 firms had committed fraud under, and breached, the anticorruption policy. | - The 11 companies were sanctioned for 7 years. |</p>
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<td><strong>FRAUD</strong></td>
<td>Submission of false documents in various tenders under an ADB loan.</td>
<td>■ The IOC declared the two firms ineligible to participate in ADB-financed activities for a minimum of 7 years.</td>
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<td>■ Firm A committed fraudulent acts because it misrepresented its equity and submitted a false business license in its proposal.</td>
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<td>■ The Directors were sanctioned indefinitely.</td>
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<td>■ Firm B audited and issued an unqualified opinion on Firm A’s misrepresented financial statements.</td>
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<td>■ Firm B did not have the required professional independence to provide external audit work for Firm A since its General Director is also working as economic consultant for Firm A. This constituted a conflict of interest as defined by ADB.</td>
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<td>Misrepresentation by a bidder in a tender for procurement of equipment for a substation expansion project.</td>
<td>■ Firm A submitted a bid that included a certificate of satisfactory operation of a 230-kilovolt (kV) substation project issued by Firm B. It also included a certificate of recommendation from Firm C citing the completion of another 230-kV substation project in 1999.</td>
<td>■ The IOC declared Firm A ineligible to participate in ADB-financed activity for a minimum of 1 year.</td>
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<td>■ Firm B confirmed that the substation being constructed by Firm A was only 132 kV and was not yet completed; hence, a certificate of satisfactory operation could not be issued.</td>
<td>■ The Executing Agency (EA) also obtained information that there is no 230-kV substation operated by Firm C.</td>
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<td>■ OAGI concluded that Firm A committed a fraudulent practice by submitting a forged certificate of satisfactory performance and misrepresented its work experience.</td>
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<td>A rival bidder for a telecommunications project complained to ADB and to Firm B (a utility company which Firm A claimed to have done projects for) that Firm A is an unknown entity in the industry.</td>
<td>■ In its bid proposal, Firm A submitted a Certificate of Incorporation, which was confirmed fake by the Government.</td>
<td>■ The IOC declared Firm A ineligible to participate in ADB-financed activity for a minimum of 7 years.</td>
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<td>■ Firm A also submitted its General Experience Record listing numerous projects. Among these projects were 17 completed and three ongoing projects for Firm B, some of which were supported by contract offers and Taking Over Certificates.</td>
<td>■ Firm B confirmed that it never awarded any project to Firm A; the projects listed by Firm A were awarded to different companies and did not match the descriptions provided; Firm A was not directly involved in the listed projects; and the contract offers and Taking Over Certificates submitted by Firm A were forged.</td>
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<td>■ Firm A’s General Experience Record also listed other project works, five of which were denied by the respective alleged employers.</td>
<td>■ Firm B confirmed that it never awarded any project to Firm A; the projects listed by Firm A were awarded to different companies and did not match the descriptions provided; Firm A was not directly involved in the listed projects; and the contract offers and Taking Over Certificates submitted by Firm A were forged.</td>
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<td>■ OAGI concluded that Firm A committed a fraudulent practice by submitting forged certificates of incorporation and experience, and misrepresented its work experience in its General Experience Record.</td>
<td>■ Firm B confirmed that it never awarded any project to Firm A; the projects listed by Firm A were awarded to different companies and did not match the descriptions provided; Firm A was not directly involved in the listed projects; and the contract offers and Taking Over Certificates submitted by Firm A were forged.</td>
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| Firm A was not performing under two contracts in an ADB-funded project. | ▪ The project department’s in-depth review of the procurement process for the two contracts revealed that what appeared to be the prequalified contractor, and the contractor who awarded the contracts, were different.  
▪ Firm A falsely portrayed it was associated with Firm B by including Firm B’s financial information, personnel, and machinery lists.  
▪ Firm A also included fraudulent bank guarantees among the documents it submitted to qualify for the contracts.  
▪ Moreover, Firm A’s representative presented false information to investigators by stating that Firm B had invested and had been a shareholder in their company. | ▪ The IOC declared Firm A ineligible to participate in ADB-financed activity for a minimum of 7 years.  
▪ The firm’s representative was sanctioned indefinitely. |
| A local Firm had billed the EA for the services of an expert who has already resigned. | ▪ The Firm’s President Director was aware that his company had submitted false time sheets and attempted to cover up the fraudulent act by providing false information to OAGI during the investigation.  
▪ The expert, office manager, and project’s team leader were accessories to the fraudulent practice.  
▪ The expert submitted his signed time sheets for 3 months even though he had already resigned.  
▪ The Office Manager prepared false time sheets for the expert and requested him to sign these documents.  
▪ The project’s team leader was aware that the expert had left his position, yet he endorsed the false time sheets. | ▪ The IOC imposed a 3-year sanction on the Firm and its President Director.  
▪ A 1-year sanction was imposed on the expert.  
▪ The Office Manager and Team Leader were sanctioned for 2 years each. |
| A Country Office provided OAGI with a memo concerning the EA’s evaluation of technical proposals for a design-build and turnkey contract that ADB is financing. The EA found that three firms submitted fraudulent documents in their proposals. | ▪ Firm A’s proposal contained discrepancies (contact details, contract amounts, dates, and technical details) in the User’s Certificates issued by two power companies. It also included in the proposal altered Letters of Authorization from two manufacturers.  
▪ Firm B submitted false User’s Certificate. It admitted that the company’s language translator, who was eventually terminated, forged the certificate. Its officials signed the proposal without understanding its contents.  
▪ Firm C also submitted false User’s Certificates. It admitted that it did not check the veracity of the documents before including them in the proposal. | ▪ The IOC sanctioned Firms A and B for 5 years.  
▪ Firm C was sanctioned for 4 years. |
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| In the prequalification of civil works contract, the joint venture (JV) agreement may have been forged. | - The Evaluation Report by the EA’s tender evaluation committee recommended the disqualification of the JV of Firms A and B for failing to submit audit reports, for submitting improperly completed experience forms, and for forging the signature of Firm A’s representative on the JV agreement.  
- Firm A confirmed that it had not entered into a JV with Firm B and that the representative’s signature was forged.  
- Firm B did not respond to OAGI’s inquiry findings.  
- In the absence of any response from Firm B, OAGI concluded it is more probable than not that Firm B committed a fraudulent act.  
- OAGI also concluded that Firm B’s owner (also its Managing Director) was responsible for submitting the fraudulent JV agreement. | - The IOC sanctioned Firm B for a minimum of 7 years.  
- Its owner was sanctioned indefinitely. |
| The audited financial statements submitted by a bidder for a construction contract differed from those filed with the Inland Revenue Office (IRO). | - A review of the bidding requirements showed that the consolidated average construction turnover figures of the supposed JV were substantially different to those filed with the IRO, and that without the inclusion of the financial data of the proposed JV partners, the bidder would not have qualified for the tender.  
- The bidder explained that a group of construction firms and individuals were supposed to bid as a JV, but the group eventually failed to reach an agreement, and their staff mistakenly relied on the group financial data when preparing the bid documents.  
- The supposed JV partners confirmed having discussed a joint bid, but one partner stated that the financial information was false while the other denied ever having withdrawn from the bid.  
- The auditors, who allegedly prepared the incorrect financial statements, could not be contacted at the addresses and phone numbers provided by the bidder and did not reply to any e-mail inquiries.  
- OAGI concluded that it is more probable than not that the company committed a fraudulent practice by misrepresenting its financial data. | - The IOC debarred the company and its managing director for 3 years. |
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| **CORRUPTION**  
  Collusion  
  A Country Office reported a concern of possible collusion by two firms in the procurement of nonmedical equipment for an ADB project. | - The identical technical proposals of the two firms and lack of credible explanations provided a preponderance of evidence that the firms engaged in a collusive practice.  
- While this investigation was in progress, a separate investigation involving Firm A was finalized in September 2006, resulting in Firm A being debarred for 3 years. | - The IOC debarred Firm A for a minimum of 7 years, to run concurrently with the sanction imposed on it in September 2006.  
- As this offense incurred prior to the imposition of sanctions in September 2006, Firm A did not breach any existing sanction. Therefore, no details were published on ADB’s website.  
- Firm B was sanctioned for a minimum of 7 years.  
- The person who signed the proposal was sanctioned indefinitely. |
| The Country Office observed strong similarities in the signatures on the bid bonds of three firms that submitted a bid for the supply of laboratory equipment. | - The Country Office requested the issuing bank to confirm the validity of the bonds.  
- The bank wrote that the bid bond in the name of Firm A was genuine, while the two others were forgeries.  
- OAGI found out through forensic document examination that the forgeries were reproduced from the authentic bid bond of Firm A.  
- Firms B and C were twice given the opportunity to explain the fake bonds they submitted, but neither of them responded.  
- OAGI subsequently requested the three firms to comment on the inquiry findings of collusion and fraud. They did not respond.  
- Firms B and C committed fraud when they submitted forged bid bonds.  
- Firm A, in providing the template for the forgeries, was party to the fraudulent act.  
- The actions of the three firms indicated collusion because Firm A was the intended winner from the start. | - The IOC imposed a minimum of 7 years ineligibility to the three firms and its owners. |
### Allegations
Possible collusion among bidders in the procurement of dental equipment

### Investigative Findings
- Five bids were received.
- OAGI found that the proposals of the four losing bidders included false bank guarantees and three of these proposals also contained false manufacturer authorizations.
- One supposed bidder denied any knowledge of the bid. None of the other bidders replied to OAGI’s inquiries and findings. Two firms did not exist.
- OAGI concluded that Firms A and B colluded to fabricate the losing bids.
- Later, OAGI found that Firm C prepared and submitted its bid, falsified its bank guarantee and manufacturer authorizations, and colluded with Firms A and B.

### Case Resolution
- Firms A and B, and two individuals were debarred for a minimum of 7 years.
- Two other individuals were debarred indefinitely for violating their sanction.
- Firm C was debarred for a minimum of 7 years.

### Allegations
Four firms participated in the bidding for the supply of civil works for a subproject to be financed by an ADB loan.

The Country Office informed OAGI that irregularities were observed during their review of the bid evaluation report.

### Investigative Findings
- The Procurement Review Report indicated that
  - Firm A, the proposed winner, had the same ownership as Firm B, while Firms B and C had the same office address.
  - The bid bonds of the four participating firms were issued by the same bank and were in sequential order.
  - Except for Firm A, which submitted a rather long description of its proposed construction method, the other three had identical technical proposals, including typographical errors.

  *In this case, the Country Office decided to re-bid the package before the matter was referred to OAGI.*
  
- OAGI confirmed the Country Office’s observations and found other evidence to support the view that collusion occurred.
- The cost estimate had been compromised from the start, judging by the slim differences in price offers. This assured Firm A of maximum profits and, at the same time, allowed all four bidders to participate, thus making the bidding appear valid.

### Case Resolution
- The IOC sanctioned the four firms for a minimum of 7 years.
- Four individuals were sanctioned indefinitely.
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<td>An anonymous complainant informed OAGI that the project’s implementing agency (IA)—a nongovernment organization (NGO)—had</td>
<td>OAGI retained an investigative firm to assist in the investigation, which conducted background searches of the IA and other involved parties, interviewed sources, and reviewed the IA’s records.</td>
<td>The IOC imposed a 7-year sanction on the IA and three other entities.</td>
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<td>■ made payments from its ADB project imprest bank account to relatives of the NGO’s Executive Director;</td>
<td>■ The IA engaged in fraudulent and collusive practices in this project.</td>
<td>■ The Executive Director and three other individuals were sanctioned indefinitely.</td>
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<td>■ awarded contracts to companies controlled by the Executive Director’s relatives;</td>
<td>■ Its Executive Director was involved in fraudulent and corrupt practices and was in a conflict of interest situation by arranging purchases from entities controlled by relatives.</td>
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<td>■ submitted contract prices in excess of market values; and</td>
<td>■ Several other entities were involved in collusive practices.</td>
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<td>■ made fraudulent claims for vehicle rental.</td>
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<td>An anonymous complainant alleged that bid-rigging and bribery had taken place to favor a preselected supplier and supervision consultants.</td>
<td>The EA’s Assistant Engineer, with the managing director of Firm A—also country representative of Firm B—favored Firm B by tailoring the specifications for turbines in the tender documents for an ADB-financed contract.</td>
<td>Firm A was sanctioned for 7 years.</td>
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<td>■ OAGI found that the Assistant Engineer solicited a laptop computer and money from the Managing Director of Firm A.</td>
<td>OAGI found that the Assistant Engineer solicited a laptop computer and money from the Managing Director of Firm A.</td>
<td>Firm B and all its affiliates were sanctioned for 2 years.</td>
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<td>Firm A’s Managing Director was sanctioned indefinitely.</td>
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<td>OAGI advised the Ministry of Finance and Anticorruption Agency of the country regarding the actions of the Assistant Engineer.</td>
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<td>A project procurement-related audit identified concerns of fraud and corruption involving 46 purchases of printing materials from one supplier.</td>
<td>All but one of the 46 purchases was large enough to require a competitive tender process, which requires a minimum of three bids.</td>
<td>The IOC sanctioned the three bidders for 7 years.</td>
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<td>■ A review of one such tender revealed that the three bidders were related entities.</td>
<td>The two proprietors were sanctioned indefinitely.</td>
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<td>■ The proprietor of Firm A acknowledged that all three bidders discussed bid prices and reached an agreement on each bidder’s price.</td>
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<td>■ The handwriting on the three tender notice forms was similar.</td>
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<td>■ The three bidders submitted the forms on the same date.</td>
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<td>■ There was sufficient evidence to determine that two of the three proprietors were involved in collusive practices.</td>
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<td>Potential collusion in tenders financed by an ADB loan</td>
<td>In an interview of a sampling of bidders conducted as a follow-up to a PPRA, the Director of Firm A admitted that he signed and stamped Firm A’s bidding documents, which were prepared for Firm A by someone from Firm B. No commission changed hands—both firms usually helped each other build business relationships. OAGI could not find sufficient evidence to conclude that neither the Director of Firm B nor any other individual associated with Firm B was responsible for preparing Firm A’s bid documents. OAGI subsequently sent formal inquiry findings letters to both firms. Neither responded. It was, thus, concluded that both bidders colluded to manipulate the bidding process, which eventually led to the award of the contract to Firm B.</td>
<td>The IOC declared the two firms ineligible to participate in ADB-financed activity for 7 years. The Director of Firm A was sanctioned indefinitely.</td>
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<td>Irregularities in the purchase of gunny pots amounting to $408,596</td>
<td>Firm A was awarded 14 contracts totaling $267,545 to supply gunny pots for the project. It monopolized the supply of gunny pots to the project from 2002 to 2004, and engaged in collusive practices by submitting bids in the name of related Firms B and C. Three evaluations of tenders in 2003 confirmed that Firms A, B, and C participated in the same tenders. An evaluation of tenders, dated February 2004, showed that proposals were received from four firms, including Firms A, B, and C. Firms A, B, and C were related entities and were found to be engaged in collusive practices. Firm A also engaged in corrupt practices when it paid bribes to EA officials to accept delivery of supplies and to facilitate payment of invoices. The Chief Executive Officer and Chairperson/owner of Firm A were found to be involved in both acts of collusion and bribery. The Managing Director of Firm B and Proprietor of Firm C colluded. Also related to this case was the admission of the Director of Firm D that it participated in different bids along with a related company, Firm E, in order to increase their chances of being awarded a contract. The Directors of Firms D and E colluded. OAGI also found evidence of serious irregularities in the procurement activities of the project, including strong indications of fraudulent and corrupt practices by EA officials, such as • creating fake companies and awarding contracts to them; • receiving benefits by paying for more expensive gunny pots, when polythene pots were delivered; • receiving benefits by paying for supplies that were never delivered; and • seeking kickbacks before accepting delivery, or returning security deposits.</td>
<td>The IOC decided that The ADB Vice-President be informed of the findings and that his agreement be obtained on requesting the Government to reimburse ADB for a portion of the loan. OAGI, in consultation with the project department and the Vice-President, would arrange to advise the country’s Ministry of Finance and the Anti-Corruption Commission of these findings. The IOC declared the five firms ineligible to participate in ADB-financed activity for 7 years, and the five directors/owners were sanctioned indefinitely.</td>
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## Allegations

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<tr>
<td>Bribery/Theft</td>
<td>The investigating firm found no evidence to support the allegations of the complainant.</td>
<td>The IOC sanctioned the agent indefinitely.</td>
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<td>The integrity of the Country Office and the project consultant’s office was maintained throughout the tender process.</td>
<td>The member firms of the JV became ineligible to participate in ADB-financed activities for 3 years.</td>
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<td>In the course of the investigation, an agent of a joint venture (JV) produced a confidential letter from the Country Director to the Project Director, which included a recommendation that the bids be reevaluated.</td>
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<td>When asked about the source of the letter, he said that he obtained it from an individual at the Project Director’s office.</td>
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<td>He also admitted making small payments to this informant in return for a copy of said letter and other documents and information, including bid evaluation reports.</td>
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<td>He thought that getting access to information and raising concerns with authorities was the only way to compete since he believed that the tender process was corrupt.</td>
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<td>The JV claimed that it obtained information about the tender process because of its numerous dealings with the EA. It was told that this information may or may not be confidential and denied that it neither had any “paper of recommendation” nor committed any corrupt practices.</td>
<td>OAGI concluded that the agent’s actions were corrupt as defined by ADB. The JV was also held liable as firms are considered responsible for the actions of their agents.</td>
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<td>OAGI concluded that the issuance of these checks was fraudulent.</td>
<td>The IOC debarred the project accountant indefinitely.</td>
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## Unauthorized payments made by former Project Accountant from the Imprest Account of an ADB-financed project

- In May 2006, the Government of an ADB member country uncovered and shared with ADB its findings that a former project accountant had embezzled from the Imprest Account of an ADB-financed project. An Operations Department reported the case to OAGI.
- The project accountant had issued checks to himself for additional remuneration to which he was not entitled and had falsely represented in the account records that checks were payable to other parties.
- OAGI concluded that the issuance of these checks was fraudulent.
- The IOC debarred the project accountant indefinitely.
- The country’s fraud and anticorruption unit concluded its independent investigation and has initiated the process to file charges.
- The Government has advised ADB that the embezzled funds will be returned to the Imprest Account.
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| **CORRUPTION**
*Defrauding Associates and Subcontractors*  | - COSO and the project department advised OAGI that a similar case of nonpayment to subcontractors by Firm B under three ADB-financed projects had occurred in 2004, and Firm B could be related to Firm A.  
- Upon further investigation, and with the assistance of COSO and concerned project staff, OAGI confirmed that the identities of the individuals behind Firms A and B, and both nonpayment incidents, were the same.  
- In the 2007 case, the company used falsified technical and financial capacities in their bid submission, and used fictitious names for the consulting contract with ADB. The subcontractors were then intentionally defrauded.  
- OAGI discovered that the two individuals had been debarred from holding directorships by the securities commission of the country where the two companies were registered. | - The IOC sanctioned the two individuals indefinitely.  
- All the firms connected with these individuals were sanctioned for 7 years.  
- While ADB has no legal obligation to settle the claims from the subcontractors, ADB’s project department is in the process of closing the existing contract and engaging the subcontractors using the remaining TA funds.  
- As a result of this case, COSO has taken immediate action and has strengthened ADB’s requirements. COSO now requires the winning consulting firm to provide  
  - a copy of the photo/signature passport page(s) of their authorized representative during negotiation; and  
  - relevant written authorization for the representative to negotiate and sign the contract with ADB on behalf of the firm.  
- In addition, COSO is considering other appropriate due diligence measures to implement to ensure the integrity of ADB’s recruitment processes. |
### Allegations

**Repeat Violations of the Anticorruption Policy**

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<th>Others</th>
<th>Investigative Findings</th>
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| A project department informed OAGI that a sanctioned firm submitted a tender to a local government unit for the expansion and rehabilitation of municipal water systems, which is to be financed by an ADB loan. | ▪ The firm and its owner were previously sanctioned for 7 years for collusion.  
▪ The firm violated its sanction period when it submitted a bid for the procurement of civil works in this case. | ▪ The IOC sanctioned the firm for a minimum of 10 years, which ran concurrently with the firm’s previous debarment.  
▪ The owner was sanctioned indefinitely.  
▪ The firm and its owner have been posted on ADB’s website for violating its sanction. |
▪ In 2006, a Country Office informed OAGI that Firm B, one of the participating bidders in the procurement of laboratory equipment for a study program at one university, proposed a specific brand of laboratory equipment that was believed to be exclusively distributed in that country by Firm A.  
▪ The Country Office also noted that Firms A and B had the same set of owners, who are both debarred individuals.  
▪ Firm B’s participation was in violation of the ADB sanction against its owners, which prohibits the firm from participating in an ADB-financed activity indefinitely, effective September 2004. | ▪ The IOC sanctioned Firm B for a minimum of 10 years.  
▪ Its four owners were sanctioned indefinitely and their names posted on ADB’s website. |
### SIGNIFICANT CASES INVOLVING ADB STAFF IN 2007

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<tr>
<td><strong>FRAUD</strong>&lt;br&gt;Medical, Dependency Allowance, Leave Benefits, and Rental Subsidy</td>
<td>▪ With the assistance of BPMSD, Vanbreda (ADB’s insurers), concerned doctors, and through interviews with staff, OAGI concluded that 40 drug purchases by the staff member’s dependent, amounting to PHP561,116.75, were based on falsified prescriptions.&lt;br&gt;&lt;br&gt;▪ The net amount already paid by Vanbreda (i.e., net of staff’s share) amounted to PHP402,506.37.</td>
<td>▪ OAGI reported its findings to BPMSD and recommended disciplinary actions pursuant to AO 2.04.&lt;br&gt;&lt;br&gt;▪ The staff was terminated.&lt;br&gt;&lt;br&gt;▪ The fraudulently claimed amount was recovered.</td>
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<td>Dependent of staff allegedly bought medications using forged prescriptions.</td>
<td>▪ Staff allegedly submitted fraudulent medical insurance claims.&lt;br&gt;&lt;br&gt;▪ With the assistance of Vanbreda, OAGI reviewed the staff’s medical insurance file since 2003 and located some of the doctors who issued the prescriptions.&lt;br&gt;&lt;br&gt;▪ OAGI established that the staff had falsified prescriptions and receipts, and fraudulently claimed reimbursements under the Group Medical Insurance Plan (GMIP) to the amount of PHP1,028,064.08.</td>
<td>▪ OAGI reported its findings to BPMSD and recommended termination be processed only if ADB is able to recover PHP1,028,064.08 in accordance with AO 2.04, Section 5b; and AO 3.11, Section 9.2.&lt;br&gt;&lt;br&gt;▪ Staff’s initial application to resign was rejected and he(^{12}) was required to affirm that he would reimburse ADB the amount that was fraudulently claimed under GMIP and that such amount would be deducted in full from the final payment upon termination. Furthermore, staff was required, among other things, to renounce the continuation and conversion options under GMIP.&lt;br&gt;&lt;br&gt;▪ With the above conditions, the staff’s application for voluntary resignation was accepted.&lt;br&gt;&lt;br&gt;▪ As staff’s termination benefits only covered a part of the amounts due, Vanbreda has the right to, and may, initiate legal action against the staff to recover the remaining amount.</td>
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Staff allegedly abused sick leave and medical insurance benefits.

- Staff had applied for additional sick leave, but went overseas for recreational purposes during his leave.
- The doctor who issued numerous sick leave certificates and prescribed medications from 2002 to 2007 was not licensed by the Government.
- Staff purchased substantial quantities of medicines at frequent intervals; consumption was highly irregular and unusually high.

- OAGI reported its findings to BPMSD.
- BPMSD initiated a formal disciplinary proceeding pursuant to Subparagraph 9.2(a) of AO 2.04.
- Subsequently, ADB recovered the unsubstantiated medical claims.
- Staff resigned under BPMSD’s option letter mechanism.

Staff A, B, C, and D allegedly abused dependency allowance benefits when they failed to advise BPCB they were receiving allowances they were not entitled to.

- Staff A and B informed BPCB of the incorrect inclusion of dependents, in response to a reminder from BPCB to all staff, requesting confirmation of their personal details.
- Staff A applied for dependency allowance for his parents in 1989. In 2004, he submitted another application to add his mother as a dependent and claimed that he had forgotten his mother was already included. BPCB discovered that the birth year of his mother was different in both applications. OAGI concluded that Staff A was not entitled to dependency allowance as his parents were not receiving their main support from him.
- Staff B had declared his father’s death and provided BPCB with a Dependent’s Status Form and a death certificate in September 2002. However, due to oversight, he was still receiving a dependency allowance up to 2007. Staff B explained that he did not report this to BPCB because he did not believe he was receiving a dependency allowance.
- Staff C did not submit a Dependent’s Status Form concerning his spouse’s death. However, Staff C did advise BPCB in 2002 that his spouse had died.
- Staff D failed to submit a Dependent’s Status Form to BPCB when his father-in-law died. He did not coordinate with BPCB and ensure the timely deletion of his father-in-law as his dependent.
- OAGI did not find sufficient evidence to show that Staff E colluded with other staff. However, OAGI concluded that Staff E’s conduct in carrying out his duties was unsatisfactory.

Staff E allegedly failed to properly exercise his job duties in processing dependency allowances.

- OAGI did not find sufficient evidence to show that Staff E colluded with other staff. However, OAGI concluded that Staff E’s conduct in carrying out his duties was unsatisfactory.

Staff A, B, C, and D allegedly abused dependency allowance benefits when they failed to advise BPCB they were receiving allowances they were not entitled to.

- Staff A and B informed BPCB of the incorrect inclusion of dependents, in response to a reminder from BPCB to all staff, requesting confirmation of their personal details.
- Staff A applied for dependency allowance for his parents in 1989. In 2004, he submitted another application to add his mother as a dependent and claimed that he had forgotten his mother was already included. BPCB discovered that the birth year of his mother was different in both applications. OAGI concluded that Staff A was not entitled to dependency allowance as his parents were not receiving their main support from him.
- Staff B had declared his father’s death and provided BPCB with a Dependent’s Status Form and a death certificate in September 2002. However, due to oversight, he was still receiving a dependency allowance up to 2007. Staff B explained that he did not report this to BPCB because he did not believe he was receiving a dependency allowance.
- Staff C did not submit a Dependent’s Status Form concerning his spouse’s death. However, Staff C did advise BPCB in 2002 that his spouse had died.
- Staff D failed to submit a Dependent’s Status Form to BPCB when his father-in-law died. He did not coordinate with BPCB and ensure the timely deletion of his father-in-law as his dependent.
- OAGI did not find sufficient evidence to show that Staff E colluded with other staff. However, OAGI concluded that Staff E’s conduct in carrying out his duties was unsatisfactory.

Staff E allegedly failed to properly exercise his job duties in processing dependency allowances.

- Staff E was issued a written reprimand for unsatisfactory conduct in carrying out his duties.
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| Staff allegedly made fraudulent claims for dependency benefits and also misrepresented his marital status. The case was brought to OAGI’s attention when the Office of the General Counsel (OGC) received a court order in relation to the staff’s deceased spouse. | - Based on government records, the staff was legally married and there was no suggestion that this marriage was ever legally dissolved.  
- His representations before the court about his marital status does not have any bearing upon his claim at ADB for dependency benefits.  
- It was concluded that staff did not misrepresent any other information to ADB to support his claim for dependency benefits. | - OAGI informed OGC and BPCB of its findings.  
- OGC replied to the court, explaining ADB’s privileges and immunities. |
| Staff allegedly was receiving rental subsidy for his residence but the owner of the house may possibly be his relative. | - The initial complaint was based on the coincidence of the common surname alone.  
- The investigating firm hired by OAGI was unable to identify any familial or other compromising connection between the ADB staff and the house owner. | - OAGI closed the case. |
| ABUSE OF RESOURCES                                                        |                                                                                        |                                                                                  |
| Staff A allegedly withdrew PHP10,000 without authorization from the bank account of Staff B. | - OAGI reviewed records and video footage, which indicated that Staff A made the unauthorized withdrawals.  
- Staff A at first denied the charge. However, he subsequently admitted taking the money and returned the same to OAGI. | - OAGI reported its findings to BPMSD.  
- The money was returned to Staff B.  
- BPMSD initiated disciplinary proceedings against Staff A under AO 2.04 and suspended him without pay pending investigation.  
- Staff A was subsequently dismissed from ADB. |
| Financial, Administrative, and Information Systems Division, OAG found that staff made repeated personal, international phone calls using ADB telecommunications facilities. | OAGI established the identity of the staff and that Staff made 473 phone calls to one person totaling 340 hours and 17 minutes to two phone numbers between May 2006 and February 2007, using ADB telecommunication facilities placed under the responsibility of the staff, including international direct dialing (IDD) access, wireless phone, and cell phone.  
- The calls amounted to $1,594.08 + PHP111,368.69.  
- The staff did not cooperate with OAGI and denied making the calls.  
- The staff engaged in misconduct by abusing ADB telecommunication facilities, and by making false statements to OAGI investigators. | OAGI reported its findings to BPMSD and recommended disciplinary action pursuant to section 2.1 (e) and (f) of AO 2.04.  
- Staff was subsequently terminated by BPMSD. |
| Staff allegedly transferred funds from the Country Office’s bank account to his dependent’s account and collected interest before returning the funds to the Country Office’s account. | - OAGI did not find any evidence of corrupt or fraudulent practice in the management of the Country Office’s bank accounts. | - OAGI closed the case and informed the Country Office.  
- OAGI recommended that staff members be reminded that, although it is their obligation to report allegations of fraudulent and corrupt practices to OAGI, such reports should be made in good faith and allegations should be substantiated. |
### Allegations

**BREACH OF ADB SANCTION POLICY**

Staff allegedly approved a contract extension with a sanctioned firm.

- OAGI was not consulted regarding the extension and addendum in the contract.
- The length of the original contract and the addendum are both 10 months, and the value of the addendum represents 72% of the value of the original contract.
- There was no evidence that the project staff intentionally breached ADB policy.
- ADB staff was negligent in approving the contract extension without consulting OAGI.

- OAGI closed the case and informed BPMSD of its findings but made no recommendation for disciplinary action.
- The project department instituted a system to avoid variations (including extensions and addendums) to contracts involving debarred entities, without consulting OAGI.
- OAGI reminded the regional departments to consult OAGI before varying a contract with a debarred entity.

**ABUSE OF POSITION**

Staff allegedly used his position to gain benefits from contractors and suppliers.

- After submission of the complaint, complainant separated from ADB and advised OAGI that he did not wish to cooperate any further.
- Therefore, although the allegations had potential integrity implications, it lacked the necessary details that would have been the basis to pursue a legitimate investigation.

- OAGI reported its findings to BPMSD and recommended that BPMSD consider a warning to the staff to avoid even an appearance of impropriety.
- BPMSD reminded staff to avoid any appearance of impropriety in his actions.

Staff A allegedly granted special privileges to a co-financier of a technical assistance (TA) because of a former professional work relationship with a senior staff member of the said co-financier. In particular

- Staff A and the senior staff member of the TA co-financier allegedly imposed consultants on the project with whom they had worked in the past.
- Staff A, the senior staff member of the TA co-financier, and others developed a plan to improperly disburse large amounts of money from the TA for unknown beneficiaries.

- A large number of documents were obtained and analyzed. Interviews were also conducted in several countries with a range of people, including staff members from ADB and the co-financier.
- During the course of OAGI’s investigations, no cogent evidence of an independent nature was found to support either of the allegations. OAGI concluded that the required burden of proof had not been met and that neither of the allegations could be substantiated.
- While conducting its investigation, OAGI became aware of alleged serious violation of Administrative Orders involving Staff B who was closely associated with the complaint. The breach involved the general principles of conduct expected of staff.

- A comprehensive report detailing the results of OAGI’s investigation into the allegations was forwarded to BPHR.
- OAGI found no evidence that Staff A had
  - granted special privileges due to the former work relationship;
  - imposed consultants on the project; and
  - developed a plan to improperly divert funds from the TA.
- BPMSD initiated disciplinary proceedings against Staff B under AO 2.04 and placed him under paid administrative leave pending investigation.
- Staff B was subsequently terminated for serious breach of ADB’s Code of Conduct.

**Case Resolution**
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<tr>
<td><strong>CONFLICT OF INTEREST</strong>&lt;br&gt;Concerns of potential conflict of interest between a staff and a service provider, and that information might be disclosed that could give the service provider an advantage if there was competitive bidding.</td>
<td>- OAGI assessed the applicability of institutional procurement versus COSO’s process for engaging staff consultants and concluded that, as the issue of procurement method was discretionary, this could not be considered a valid complaint.&lt;br&gt;- The concerns were general and not specific allegations of issues under OAGI’s mandate.&lt;br&gt;- The broad discretion a hiring office has in direct selection of service providers (or staff consultants) limits the verifiability of even the general concerns.</td>
<td>- OAGI closed the case and informed the complainant that it may reassess the matter if further evidence or concerns arise in the future.</td>
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<tr>
<td>Alleged conflict of interest arising from a personal relationship between a staff and consultant, alleged abuse of power, and alleged misuse of ADB funds by staff. Alleged misuse of ADB funds by consultant and alleged inappropriate behavior in the workplace.</td>
<td>- OAGI reviewed all relevant documents and found no evidence that the staff and consultant had been using ADB funds inappropriately.&lt;br&gt;- OAGI concluded that there was no actual conflict of interest arising from the relationship between the staff and consultant.&lt;br&gt;- OAGI did not investigate the consultant’s alleged inappropriate behavior as this is outside its mandate.</td>
<td>- OAGI closed the case and reported its findings to BPMSD.</td>
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<td>Staff allegedly influenced contract awards in favor of a consultant for project areas under his direct supervision.</td>
<td>- The consultant had five contracts with ADB, two of which were approved by the senior staff. However, the consultant had strong academic and professional credentials and was undoubtedly the most qualified candidate to carry out the assignments.&lt;br&gt;- There was insufficient evidence to conclude that the staff improperly influenced the selection of the consultant.</td>
<td>- OAGI closed the case.</td>
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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.
Appendix 5

ADB PROCESS FOR DEALING WITH ALLEGATIONS OF FRAUD, CORRUPTION, OR ABUSE BY ADB STAFF

OAGI receives allegation or evidence of fraud, corruption, or abuse by staff

OAGI screens complaint or allegation

OAGI Director approves Investigative Plan

OAGI investigates complaint or allegation

OAGI reports its findings to BPMSD

BPMSD makes decision on disciplinary action and advises staff member

Staff submits request for compulsory conciliation to the Director, BPHR within 45 calendar days from date of receipt of the decision

Staff member submits a written request for administrative review to the Director General, BPMSD within 15 calendar days from receipt of the Conciliator’s statement

If the staff member is not satisfied with the decision of the Director General, BPMSD staff member files an appeal to the Appeals Committee through its Secretary

Appeals Committee investigates and makes recommendation to the President

OAGI Director approves Closing Report, and if appropriate, refers to other ADB departments

No sanction imposed. OAGI Director endorses closing report; Auditor General approves closing report

Conciliation successful?

Sufficient evidence that anticorruption policy/AO 2.02 is violated?

OAGI Director approves Investigative Plan

Sufficient evidence that allegation specific, credible, verifiable material and within OAGI’s mandate?

OAGI investagates complaint or allegation

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

AO = Administrative Order
BPHR = Human Resources Division
BPMSD = Budget, Personnel, and Management Systems Department
OAGI = Integrity Division, Office of the Auditor General
Appendix 6

ADB PROCESS FOR DEALING WITH ALLEGATIONS OF FRAUD OR CORRUPTION INVOLVING BIDDERS, CONSULTANTS, CONTRACTORS, SUPPLIERS, OR OTHER THIRD PARTIES TO ADB-FINANCED ACTIVITY

OAGI receives allegation or evidence of fraud or corruption involving ADB-financed activities

OAGI screens allegation or evidence

OAGI Director approves Investigative Plan

OAGI investigates allegation or evidence

OAGI submits its findings to the IOC

IOC makes decision on sanction

Secretariat, IOC advises sanctioned firms/individuals of the decision

Secretariat, SAC considers appeal

SAC decides whether to confirm sanction

ADB President makes decision if the SAC is unable to unanimously agree

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

IOC = Integrity Oversight Committee
OAGI = Integrity Division, Office of the Auditor General
SAC = Sanction Appeals Committee

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HOW TO REPORT FRAUD OR CORRUPTION

Contact the Integrity Division of the Office of the Auditor General (OAGI) to report concerns or evidence that fraud or corruption may have occurred or is occurring in any ADB-financed activity. Information concerning the identity of a complainant is strictly controlled and will not be released to other ADB staff or to anyone outside ADB without the consent of the complainant.

When reporting concerns, please provide as much information and detail as possible, including who, what, when, where, why, and how. For further guidance, see our website at “What to Report” (http://www.adb.org/Integrity/whatto.asp).

- **Telephone**: +63 2 632 5004 (not a toll-free number, and normal local or long-distance telephone charges will apply)
- **E-mail**: integrity@adb.org or anticorruption@adb.org
- **Fax**: +63 2 636 2152 (not a toll-free number, and normal local or long-distance telephone charges will apply)
- **Online form**: http://www.adb.org/Integrity/complaint.asp
- **Postal address**: Integrity Division (OAGI)

Office of the Auditor General
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

- **In person**: OAGI is located on the third floor, North Core of ADB headquarters, 6 ADB Avenue, Mandaluyong City, Philippines.
Report to the President

Office of the Auditor General
INTEGRITY DIVISION
2007 ANNUAL REPORT

About this Publication
This report presents the accomplishments of the Integrity Division, Office of the Auditor General (OAGI) in 2007. Pursuant to the Anticorruption Policy approved by ADB Board of Directors (July 1998), OAGI screens and investigates allegations of fraud, corruption, coercion, collusion, conflict of interest, and/or related abuse in ADB-financed activities in accordance with ADB’s Integrity Principles and Guidelines.

The report explains OAGI’s mandate, operational and administrative arrangements, processes and procedures; and features summaries of cases screened and investigated, and project procurement-related audits conducted in 2007. The report also describes OAGI’s 2007 recommendations to ADB management, operational departments, and other entities; activities to advance awareness of and education on the anticorruption policy; capacity building initiatives to enhance OAGI; and OAGI’s collaboration and coordination endeavors with other multilateral development banks.

The report includes a section on challenges ahead for OAGI, including discussions on workload and resources; ADB’s internal governance; implementing effective measures to prevent fraud and corruption in ADB projects; whistleblower protection; and OAGI independence and administration.

About the Asian Development Bank
ADB aims to improve the welfare of the people in the Asia and Pacific region, particularly the nearly 1.9 billion who live on less than $2 a day. Despite many success stories, the region remains home to two thirds of the world’s poor.
ADB is a multilateral development finance institution owned by 67 members, 48 from the region and 19 from other parts of the globe. ADB’s vision is a region free of poverty. Its mission is to help its developing member countries reduce poverty and improve their quality of life.
ADB’s main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ADB’s headquarters is in Manila. It has 26 offices around the world and more than 2,000 employees from over 50 countries.