



Follow-Up Review of Proactive Integrity Review Recommendations

Loans 2754-VIE, 2961-VIE, and 3251-VIE:
Water Sector Investment Program
[Projects 1, 2, and 3]

September 2021

Office of Anticorruption and Integrity

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Asian Development Bank



CURRENCY EQUIVALENTS
(as of 15 August 2020, the report cutoff date)

Currency unit	–	Vietnamese Dong (VND)
VND1.00	=	\$0.00004315
\$1.00	=	VND23,176

ABBREVIATIONS

ADB	–	Asian Development Bank
BEC	–	bid evaluation committee
BER	–	bid evaluation report
CSC	–	consultant selection committee / construction supervision consultant
OAI	–	Office of Anticorruption and Integrity
PMU	–	project management unit
PIR	–	proactive integrity review
VRM	–	Viet Nam Resident Mission
WSC	–	water supply company

NOTE

In this report, "\$" refers to United States dollars.

Proactive Integrity Reviews

Mandate:

The *Anticorruption Policy* of the Asian Development Bank (ADB) requires all parties, including borrowers, beneficiaries, bidders, consultants, suppliers, contractors, and ADB staff to observe the highest ethical standards when participating in ADB-related activities. The Policy supports ADB's obligation, in accordance with Article 14 (xi) of the Agreement Establishing the Asian Development Bank, to ensure that the proceeds of ADB financing are used only for intended purposes.

The Office of Anticorruption and Integrity (OAI) conducts proactive integrity reviews (PIRs), to help prevent and detect indicators of integrity violations (i.e., fraud, corruption, collusion, coercion, abuse, conflict of interest, and obstruction).

Objective:

A PIR identifies and assesses project integrity risks through the (i) examination of processes, procedures, and documentation related to procurement, financial management, and contract implementation/management, and (ii) inspection of project outputs. Where necessary, OAI recommends enhancements to mitigate or eliminate opportunities for integrity violations.

OAI conducts follow-up reviews on selected PIRs to (i) assess the implementation progress of the PIR recommendations, and (ii) assist the executing/implementing agencies and ADB in implementing any remaining recommendations.

A PIR is neither an investigation nor an evaluation to assess development effectiveness of ADB funded projects. It does not review project outcomes or development impact, which can only be assessed after the completion of a project. However, OAI's mandate is underpinned by ADB's zero tolerance for integrity violations. Any suspected violation of ADB's Anticorruption Policy is assessed in accordance with ADB's Integrity Principles and Guidelines (2015).

By making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

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EXECUTIVE SUMMARY

The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted a follow-up review of the Water Sector Investment Program – Projects [1](#), [2](#), and [3](#) (program) in Viet Nam. The follow-up review commenced in July 2020 with fieldwork conducted remotely in October and November 2020, utilizing local consultants.

Background

The review focused on the implementation progress of 19 previous recommendations relating to 11 high and medium risk findings of the [2019 proactive integrity review \(PIR\)](#) and assessed the residual integrity risks of the program. OAI reviewed 7 contracts across 4 water supply companies (WSC).

Results

Since the PIR, controls, processes, and systems have generally improved to mitigate program integrity risks. However, four asset management and procurement related findings continue to require remediation, which are summarized below and detailed in sections [AM-1](#), [AM-2](#), [AM-4](#), and [PR-1](#) of this report. The findings have been discussed with the WSCs and the ADB project team, and their feedback is incorporated. No new findings have been identified.

Medium residual risk

- (i) Insufficient independent tests for high-density polyethylene (HDPE) pipes. The contractor of one WSC did not conduct all required independent tests for the pipes to fully comply with the contract standards. The Project Management Unit (PMU) did not instruct the contractor to commission the tests for three out of eight required specifications nor did the PMU provide documentation from the product manufacturer to show conformance of the pipes to specifications not tested. Insufficient independent laboratory testing of the pipes prevented OAI and the PMU from verifying the quality. Further, possible defects on pipes may not be detected, possibly leading to leakage, repairs, replacements, or compromised safety of the project beneficiaries. The medium residual risk rating reflects four additional tests commissioned since the PIR whilst recognizing the continuing concerns on the quality of pipes due to three tests outstanding.
- (ii) Improper storage of construction materials. One WSC PMU did not provide adequate instructions to contractors regarding materials storage and protection. It failed to require the contractors to establish a comprehensive policy including adequate theft protection measures and did not identify personnel responsible for the policy implementation. Further, the PMU did not adequately monitor compliance with the existing policy. Lack of a robust policy and monitoring controls on materials management may lead to mishandling, damages, or theft of project assets, and may lead to inconsistent or delayed detection of such incidents or usage of damaged materials.
- (iii) Unclear physical and financial progress. One WSC PMU did not submit adequate progress reports to periodically reflect the completed work against plans. The monthly progress reports did not quantify physical progress, and the quarterly progress reports contained errors in the cumulative disbursement amounts. Incomplete or inaccurate progress reports may prevent the PMU and the ADB project team from detecting shortcomings in performance that could be indicative of integrity violations.

(iv) Inaccurate evaluation of bidders' financial qualifications. The Bid Evaluation Committee (BEC) of one WSC did not fully assess the impact of qualified audit opinions during the evaluation of bidders' financial capacity. Another WSC BEC did not detect the overstatement of a winning bidder's liquid assets. In this instance, the evaluation outcomes would remain unaltered as all three bidders had adequate financial resources. However, the respective BEC's continued lack of attention to the bidders' financial capacity may lead to contracts awarded to unqualified bidders.

Recommendations

To prevent significant asset management findings from recurring in this program, the PMUs must proactively monitor contractors' compliance with contract specifications. In future contracts, the PMUs should secure adequate resources to commission all required tests. Likewise, the PMUs should guide contractors to (i) establish robust construction materials storage and protection policies, and (ii) provide a comprehensive and accurate analysis of actual progress against plans in the periodic progress reports.

To address the procurement finding, the BECs should strictly follow the prescribed evaluation and qualification criteria and thoroughly evaluate bidders' financial capacity. The PMU should also continue working with ADB's Procurement, Portfolio, and Financial Management Department to remediate remaining procurement capacity gaps of PMU and BEC members. Lastly, OAI strongly encourages the ADB project team to continuously monitor the findings noted in this review and to apply lessons in the remainder of the projects.

Concluding Remarks

OAI commends the remediation efforts of the WSCs and the ADB project team in mitigating the integrity risks of the PIR findings. The lessons drawn from this follow-up review will strengthen the internal controls of the asset management and procurement processes and will prevent losses of project funds posed by error or integrity violations.

OAI appreciates the courtesy and support extended by the WSCs, the Foreign Economic Relations Department of Viet Nam's Ministry of Planning and Investment, ADB's Procurement, Portfolio and Financial Management Department, and Southeast Asia Regional Department through its Viet Nam Resident Mission, especially during the time of the COVID-19 pandemic.

I. OVERVIEW

1. The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted a follow-up review of the Water Sector Investment Program – Projects [1](#), [2](#), and [3](#) (program) in Viet Nam based on the [2019 proactive integrity review \(PIR\) results](#). The review commenced in July 2020 with fieldwork conducted remotely.¹

2. The follow-up review assessed the implementation of recommendations from the PIR, and the residual integrity risks of the program. OAI debriefed the four water supply companies (WSC), the ADB project team, and Viet Nam Resident Mission management team upon the conclusion of the follow-up review fieldwork in November 2020, and incorporated the feedback.

Project Background

3. The program aims to benefit 15 million people with improved water services in Viet Nam. The program is financed by loans under a multitranche financing facility (MFF) for an aggregate amount not exceeding \$1 billion. ADB has approved Loans 2754-VIE, 2961-VIE and 3251-VIE to fund Projects 1, 2, and 3, respectively. [Project 2](#) closed in December 2020, [Project 3](#) closing date is extended to December 2022 and the extension of [Project 1](#) closing date to December 2024 is being processed.

Scope and Methodology

4. The follow-up review covered the same four WSCs as the PIR. OAI selected seven contracts for the follow-up review, which comprised approximately 42% of the program's total value of contracts.² These included two supply of goods contracts, four civil works contracts, and one consulting services contract.

5. OAI assessed the implementation status of the 19 recommendations from 11 high and medium-risk findings from the PIR and categorized each as (i) implemented, (ii) partially implemented, (iii) not observed/not applicable, or (iv) not implemented. OAI assessed whether the underlying integrity risks of each of the 11 PIR findings have been appropriately mitigated.

II. RESULTS

6. Since the PIR, OAI determined that controls, processes, and systems were generally improved to mitigate program integrity risks. Specifically, the PMUs, BECs, and ADB project team appropriately mitigated integrity risks for 7 out of the 11 high and medium-risk findings, which consist of 4 findings in procurement, 2 in financial management, and 1 in asset management.

7. However, four findings related to asset management and procurement continue to require attention. These findings are detailed below under sections [AM-1](#), [AM-2](#), [AM-4](#), and [PR-1](#), including

¹ The fieldwork was conducted remotely between 29 September and 6 November 2020 without inspecting project assets due to the prevailing COVID-19 pandemic restrictions. Subsequently, additional document review and analysis were conducted to assess the impact of feedback received from the PMUs and ADB project team.

² The review period was from 1 October 2019, the [PIR report](#)'s publication date to 15 August 2020, the sampling cut-off date for this follow-up review. The project awarded 9 contracts during the review period with total value of about \$32 million.

the recommendations to further address the underlying integrity risks.³ No new findings have been identified.

Medium Residual Risk Findings

A. Asset Management Finding AM-1: Insufficient independent tests for high-density polyethylene (HDPE) pipes

8. In one contract examined during the PIR, the civil works contractor commissioned only the pressure test for HDPE pipes, among several other required tests.⁴ This was a high-risk finding given the unconfirmed quality of the pipes which exposed the project to the risk of potential losses if substandard pipes were used. To address this, OAI recommended the WSC 2 PMU to monitor independent test results covering all the testing requirements, document the results of the tests in the monthly progress reports, and provide the results to ADB for reference.

9. The PMU did not instruct the contractors to commission all the required tests as specified in the contract,⁵ and three of the eight tests remain uncommissioned.⁶ The PMU was also unable to provide alternative documentation that certifies the pipes' quality standards. During the follow-up review, the ADB project team reminded several WSCs to submit test reports.

10. The PMU advised that it ensured conformance of the pipes through the installation acceptance process, where the construction supervision consultant (CSC) is to endorse the quality and quantity of the installed pipes. However, the minutes to the installation acceptance process revealed that the CSC's endorsement was limited to the quality and volume of work done and excluded comments on the material conformance of the pipes. Since an independent party did not validate the contractors' compliance with the testing requirements, the finding remains unaddressed.⁷

11. OAI continued to experience limitations in confirming the quality of the pipes, which expose the project to the risk of potential losses and undermine the safety of beneficiaries if substandard pipes were used. In particular, substandard pipes may have a reduced lifespan and contaminate drinking water if significantly deteriorated. Moreover, premature pipe replacement and/or repairs would be costly, impede assistance to ultimate beneficiaries, and may lead to reputational damage to the projects and ADB.

³ References to AM and PR, respectively, pertain to the major asset management and procurement findings in the PIR report. The number suffix (e.g., 1, 2, 3, etc.) indicates the sequence of presentation of these findings. Thus, AM-1 refers to the first asset management finding, PR-1 relates to the first procurement finding, and so on.

⁴ Contract specifications require construction materials, such as HDPE water pipes, to comply with the standards of TCVN 7305-2:2008 (ISO 4427-2:2007) for pipes and related components for conveying water for human consumption. The same standard, specifically, requires that HDPE pipes should be tested and comply with the following criteria and respective standards: (i) outside diameter (average) using TCVN 6154:1996; (ii) thickness (average) of pipe wall using TCVN 6145 :1996; (iii) longitudinal dimension variation % using ISO 2505-1:1994; (iv) plastic rating using ASTM E1252-98; (v) specific gravity (kg/m³) using ISO 4439:1979; (vi) tensile strength (Mpa) using ISO 6259-1:1997; and (vii) modulus of flexibility (Mpa) using ISO 718:2001.

⁵ In October 2020, the ADB Project Analyst emailed all WSCs a reminder to commission the required tests for critical project assets.

⁶ The PMU had not provided test results covering the following: (a) plastic rating using ASTM E1252-98; (b) specific gravity (kg/m³) using ISO 4439:1979; and (c) modulus of flexibility (Mpa) using ISO 718:2001. OAI sighted test results dated between Nov 2017 to May 2019 on the following properties: (i) internal pressure, (ii) outside diameter, (iii) thickness, (iv) longitudinal dimension, and (v) tensile strength. The PMU did not furnish OAI the results for testing of (ii) to (v) prior to PIR report issuance in October 2019.

⁷ The residual risk rating decreased from High to Medium because contractors commissioned four additional tests since the PIR.

Recommendations

12. The PMU should provide written instructions to contractors to complete all the required tests for critical project assets such as water pipes and other assets specified in the contract's technical specifications. PMUs should also allocate sufficient resources in the contract for the required testing.

13. Further, the PMU, with the CSC's support, should enforce the contractor's strict compliance with such testing requirements and receive the appropriate test completion results. To aid in compliance monitoring, the ADB project team should remind WSCs of the importance of the testing and ensure reports are submitted.

B. Asset Management Finding AM-2: Improper storage of construction materials

14. During the PIR, water distribution pipes and gravel were left uncovered in an open lot adjacent to the construction site. This was a high-risk finding given the risk of damage, including theft, and recommended the WSC 2 PMU to instruct the contractor to establish a robust policy on construction materials protection, storage and records maintenance. In addition, the PMU was recommended to monitor compliance with this policy on a sample basis and document results in the monthly progress reports.

15. During the follow-up review, the PMU had sent a letter to the civil works contractor as a reminder to adopt adequate materials storage practices.⁸ However, the letter was dated prior to the 2019 PIR report issuance and did not include the detailed instructions on the recommended policy contents.

16. The civil works contractor established a policy on construction materials, which covered general requirements on (a) materials storage, (b) protection against damage, (c) and forms for tracking movement of materials. However, this policy lacked the needed level of detail on protecting assets from theft and did not designate the parties responsible for implementing the policy.

17. The PMU advised that construction materials deployed to the sites are normally used within a relatively short period of time. HDPE pipes are to be gathered on a dry surface, placed 20 cm above ground and covered with a plastic canvas as protection measures. According to the PMU, these measures minimize the construction materials from being exposed to the weather elements and reduce risk of theft. However, these controls could not be verified and such requirements were not included in the construction materials policy or other supporting documents. In addition, the PMU did not monitor the contractor's compliance with the policy, and the CSC did not actively monitor controls over construction materials during site visits.

18. Although the PMU demonstrated some improvements to the construction materials policy, the noted risks of damage to water pipes and other critical project assets continued, which may compromise the quality of these materials and undermine the safety of beneficiaries. Theft of construction materials may also lead to project losses.

⁸ The Deputy Director of WSC 2 PMU signed the letter dated 3 August 2018, which was issued prior 1 October 2019, the PIR report issuance date.

Recommendations

19. The PIR should instruct existing and future contractors to develop and implement a robust policy for handling construction materials. The policy should detail the requirements for materials storage, protection against damage and theft, tracking of materials movement, and should designate the responsible contractor personnel. PMU, through the CSC, should monitor the contractor's compliance with the policy and document the results of the monitoring in the progress reports.

C. Asset Management Finding AM-4: Unclear physical and financial progress

20. For one contract examined during the PIR, the progress report excluded the actual physical and financial progress in percentage terms. OAI recommended that the WSC 4 PMU submits to ADB the succeeding monthly progress reports reflecting the difference between the actual physical and financial progress against plans.

21. During the follow-up review, the PMU forwarded to ADB the contractor's monthly progress reports, which contained financial progress data in absolute amounts and percentage terms without quantifying the overall physical progress. The PMU also submitted to ADB the quarterly progress reports that reflected physical and financial progress percentages without comparing the progress against plans.⁹ The PMU was not able to provide the details on how the physical progress percentages were calculated. Moreover, the quarterly progress reports contained inaccurate data, with cumulative disbursement amounts deviating from the amounts in the monthly progress reports.

22. Since June 2019, the ADB project team has held monthly coordination meetings with the PMU to discuss the project progress. The meetings help detect gross inaccuracies in project data, but do not fully mitigate the risk of inaccurate or incomplete progress reports.¹⁰

23. Incomplete or inaccurate progress reports may continue to prevent the PMU and the ADB project team from performing comprehensive analyses of physical progress and disbursements against plans. This may weaken the effectiveness of project monitoring, which may lead to delayed detection of project implementation issues.

Recommendation

24. The PMU should instruct the construction supervision consultant to accurately quantify and analyze physical and financial progress against plans in the monthly and quarterly progress reports.

D. Procurement Finding PR-1: Inaccurate evaluation of bidders' financial qualifications

25. The PIR noted errors, omissions, and inconsistencies in the financial capacity evaluation of bidders across the four WSCs. OAI identified this as a high-risk finding given the risk of incorrect contract awarding and recommended the bid evaluation committee (BEC) and consultant selection committee (CSC) to strictly evaluate bidders following the prescribed evaluation and qualification criteria. OAI recommended the ADB project team to provide trainings for existing and potential BEC CSC members, and to enhance oversight by reviewing select bids whenever necessary.

⁹ OAI's observation on the quarterly reports is not limited to only one contract and applies to the progress of all contracts awarded under Project 1.

¹⁰ The engagement of the replacement CSC in April 2020 is expected to enhance the quality of periodic progress reports in the future.

26. Since the PIR, the ADB project team enhanced its oversight activities by performing spot checks of bids in contentious areas and documented the reviews in the Electronic Procurement Approval Form. These checks were performed with inputs from the Viet Nam Resident Mission (VRM) procurement officer. The ADB project team also organized two workshops on procurement, contract management, and financial management between June and December 2019 for WSCs that will implement new projects. Although the workshops were not extended to WSCs of ongoing projects, procurement and finance staff deployed in VRM are providing close project implementation support to the WSCs together with the ADB project team.¹¹

27. Moreover, the BECs and the CSC of the reviewed WSCs demonstrated overall improvements in their bid evaluation process. The BECs and the CSC appropriately completed sanctions and conflict of interest checks on bidders and participating firms and improved the evaluation and documentation of the bidders' details in the evaluation reports and supporting appendices. Where appropriate, BECs and the CSC sought clarifications from participating firms and bidders and incorporated ADB's comments in the evaluation reports.

28. Despite the above improvements, OAI continued to note deficiencies in BECs' evaluation of bidders' available financial resources. In one contract, the BEC of WSC 2 did not fully assess the impact of qualified audit opinions during the evaluation of bidders' financial capacity. In the second contract, the BEC of WSC 3 did not detect the overstatement of a winning bidder's liquid assets. In these instances, the evaluation outcomes would remain unaltered as the winning bidders had sufficient available financial resources. However, BECs' continued lack of attention to the bidders' financial capacity may lead to contracts awarded to unqualified bidders, legal exposure from unsuccessful firms, construction delays and quality issues, or reputational damage to the projects or ADB.

Recommendations

29. The PMU should evaluate bidders' financial capacity following the prescribed qualification criteria. The BEC should carefully review the bid forms against supporting documents and seek clarifications from bidders for discrepancies or deficiencies noted, especially for first-ranked bidders. In addition, the BEC should sufficiently document evaluation results, including the basis for procurement decisions made in the evaluation report and supplement these by evaluation tables and appendices. The ADB project team should continue to provide refresher trainings for existing and potential BEC and CSC members as needed and continue to oversee bids specifically on the improvement areas highlighted in this report.

III. CONCLUDING REMARKS

30. OAI recognizes the efforts of the WSCs and ADB project team in addressing the PIR findings over procurement, financial management, and asset management. However, the findings noted in this report, if not addressed, may continue to expose this and future ADB projects to integrity risks.

31. OAI requests the PMUs of WSC 2 and WSC 4 and ADB project team to address the follow-up review recommendations, and the ADB project team to monitor the PMUs' progress.

¹¹ VRM management sought OAI's specific support for conducting refresher trainings to complement its capacity building initiatives for WSCs.

IV. ACKNOWLEDGEMENTS

32. OAI appreciates the courtesy and support extended by the WSCs, the Foreign Economic Relations Department of Viet Nam's Ministry of Planning and Investment, ADB's Procurement, Portfolio and Financial Management Department, and Southeast Asia Regional Department through its Viet Nam Resident Mission, especially during the time of the pandemic. OAI remains available for consultation on any matter in this report.