

ASIAN DEVELOPMENT BANK

PROJECT PROCUREMENT-RELATED REVIEW

**Loans 2783-PNG and 2784-PNG(SF): Bridge Replacement for Improved
Rural Access Sector Project**

This report has been redacted in accordance with Asian Development Bank's Public Communication Policy (PCP) issued in 2011. In particular, it excludes confidential and other information in accordance with paragraph 70 of the PCP.

**Office of Anticorruption and Integrity
August 2017**

CONTENTS

	Page
EXECUTIVE SUMMARY	i
I. OVERVIEW	1
II. FINDINGS AND RECOMMENDATIONS	2
III. CONCLUDING REMARKS	19

CURRENCY EQUIVALENTS

(as of 28 February 2016)

Currency unit	=	Papua New Guinea Kina (PGK)
1 PGK	=	\$ 0.328999
\$1.00	=	PGK3.039514

ABBREVIATIONS

ADB	-	Asian Development Bank
BER	-	bid evaluation report
BRIRAP	-	Bridge Replacement for Improved Rural Access Sector Project
BOQ	-	bill of quantities
CMS	-	ADB Consulting Management System
DoW	-	Department of Works
DNPM	-	Department of National Planning and Monitoring
EOI	-	expression of interest
ICB	-	international competitive bidding
ICS	-	individual consultant selection
IFB	-	invitation for bids
IPC	-	Interim Payment Certificate
OAI	-	Office of Anticorruption and Integrity
PAI	-	Project Administration Instruction
PARD	-	Pacific Department
PCUS	-	procurement contract update sheet
PIU	-	project implementation unit
PNG	-	Papua New Guinea
PNRM	-	Papua New Guinea Resident Mission
PPRR	-	project procurement-related review
QCBS	-	quality- and cost-based selection
TEC	-	technical evaluation committee

NOTE

- (i) The currency equivalents above were used unless otherwise stated.
- (ii) In this report, \$ refers to US dollars.

A project procurement-related review is

a review undertaken by OAI on ongoing ADB-financed projects to assess compliance to applicable ADB policies, guidelines, and the loan/financing agreements, with a focus on preventing and detecting integrity violations (<http://www.adb.org/site/integrity/integrity-violations>) involving ADB-related activities as defined under ADB's *Anticorruption Policy* as amended (<http://www.adb.org/documents/anticorruption-and-integrity-policies-and-strategies>) and ADB's *Integrity Principles and Guidelines* (<http://www.adb.org/documents/integrity-principles-and-guidelines>) as amended from time to time.

ADB's *Anticorruption Policy* 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 PPRR assesses internal controls in place, identifies irregularities and instances of non-compliance, inspects the project outputs, and recommends enhancements to mitigate or eliminate opportunities for fraud, corruption, or abuse of resources and to help improve development effectiveness of future projects.

A project procurement-related review is not

an investigation of fraud and corruption 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.

OAI conducts **follow-up reviews** on selected PPRRs to assess implementation progress of the PPRR recommendations and to assist the executing/implementing agencies and ADB in addressing remaining recommendations.

EXECUTIVE SUMMARY

1. The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted a project procurement-related review (PPRR) of Papua New Guinea's (PNG) Bridge Replacement for Improved Rural Access Sector Project (the Project). The fieldwork for the PPRR was conducted in Port Moresby from 7 March to 1 April 2016, with further review and analysis completed subsequent to the fieldwork. This report presents the findings and recommendations resulting from the PPRR.

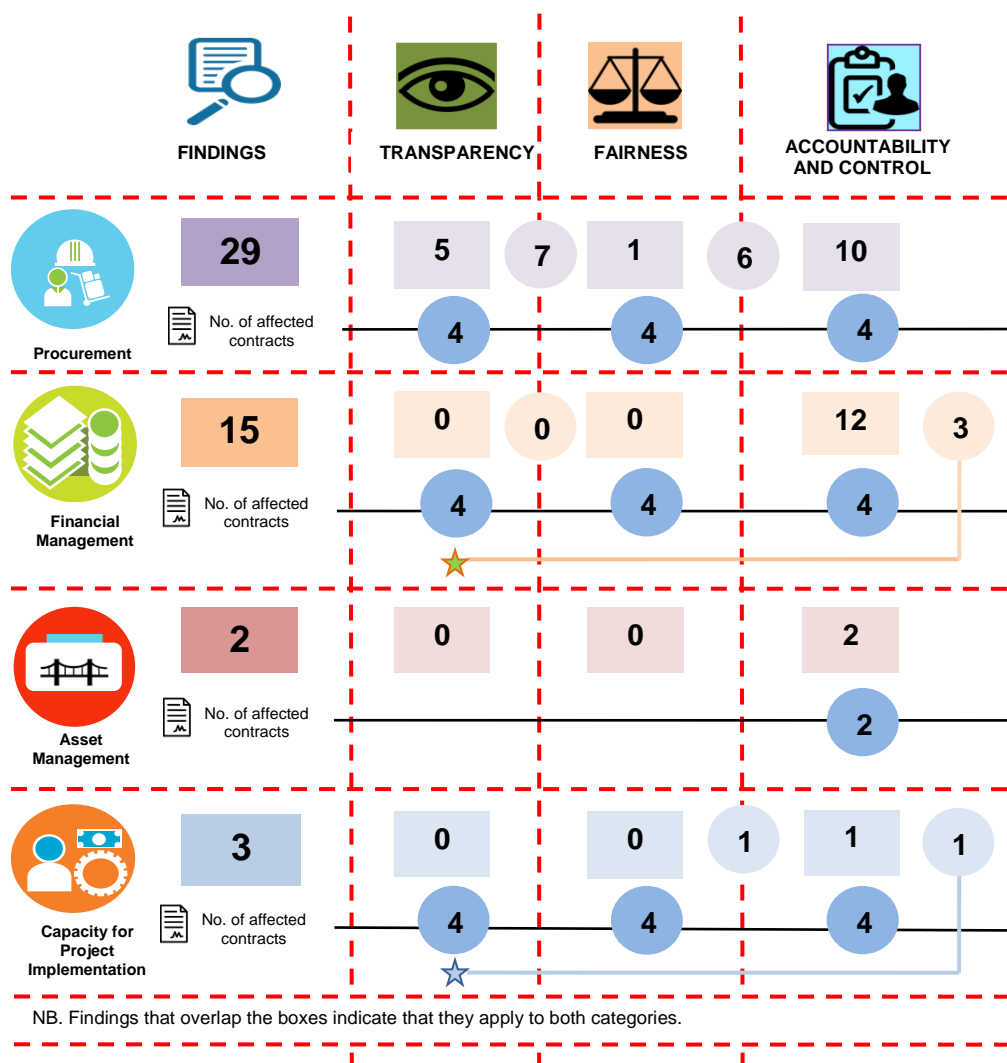
2. The \$100 million Project aims to improve access to market and social services for the rural population of selected provinces of PNG through better connectivity and more efficient and safer road network. The Department of Works (DoW) is the executing and implementing agency and a project implementation unit (PIU) was established within DoW. The overall objective of the PPRR was to verify the Project's compliance with applicable ADB policies, guidelines and loan agreements with a focus on preventing and detecting integrity violations. Recommendations from the PPRR are intended to strengthen project oversight, enhance internal controls, mitigate project integrity risks, and optimize project management. If replicated, lessons learned will also improve other ADB-financed and/or administered projects in PNG.

3. The PPRR identified serious procurement irregularities in 3 of the 4 awarded Project contracts, resulting in approximately 75% (\$48.7 million) of contracts vulnerable to Project loss.¹ There were deficiencies in financial management and disbursements, including contraventions to contract terms, which may have resulted in payments of ineligible expenses of approximately \$500,000. At the time of the fieldwork, the PPRR noted substantial disbursements despite slow progress of works under a civil works contract (i.e., 60% had been disbursed vis-à-vis PPRR estimate of 10% physical completion as of 28 February 2016). OAI referred the serious findings to ADB's Pacific Department (PARD), which PARD in collaboration with DoW established mitigating measures to ensure that the civil works delays are addressed.

4. The snapshot of the nature and number of the PPRR findings is presented in **Figure 1**.

¹ The potential amount of Project loss only includes the values of the contracts affected. The full financial impact of irregularities may be difficult to identify and quantify since this also includes costs of implementation delays, increased monitoring and review, foregone benefit from use of the Project outputs, and other variables.

Figure 1: Snapshot of Findings by Category



5. The PPRR noted two instances relating to a civil works contract where ADB's *Anticorruption Policy* may have been violated. One of the JV partners of Bidder A submitted inconsistent financial data that was not substantiated by the financial statements. In the second instance, two versions of the bid evaluation report (BER) were submitted to ADB's Papua New Guinea Resident Mission (PNRM). The first version recommended Bidder B as the lowest evaluated bidder whereas the second version recommended Bidder A as the lowest substantially responsive bidder. The second and final BER was submitted to PNRM (i) with conflicting conclusion - Bidder B was the lowest substantially responsive bidder, however the recommendation was to award the contract to Bidder A, (ii) without consulting the supervision consultant, who was a technical evaluation committee (TEC) member, on the changes, and (iii) with the identical TEC's signature page from the first BER. Given the conflicting conclusion and recommendation in the BER, ADB's no objection to the BER's recommendation is not justified.

6. The potential integrity violations have been referred to OAI Investigations for assessment in accordance with ADB's *Integrity Principles and Guidelines*. Should the findings of the investigation establish any wrongdoing by the bidders, the investigation may be referred to the Integrity Oversight Committee for consideration of debarment.

7. The key findings, highlighted below, cast doubt over the Project's integrity and may result in increased financial loss should they recur.

Inappropriate evaluation of bid requirements

In one civil works contract, the lack of thorough review by the TEC of the bid supporting documents resulted in awarding the contract to the bidder that did not meet the financial capacity, equipment, key personnel and work experience requirements.

Absence of crucial information in Form FIN-4 of the standard bidding documents

In both civil works contracts, DoW as the employer did not specify in Form FIN-4 the required amount representing "financial resources requirement for the subject contract" to appropriately assess if the bidders' financial resources would meet the financial requirement to implement the contract. The TEC incorrectly used each of the bidder's figures to assess the criteria, which could have placed the other bidders at a disadvantage.

Substantial disbursements despite slow progress

In a civil works contract, 60% of the contract amount was disbursed as of 28 February 2016, which was significantly higher than the PPRR estimate of 10% physical completion during site inspection in March 2016. In July 2016, at OAI's recommendation, PARD (through PNRM) temporarily suspended disbursements to the contractor and lifted the suspension after remedial actions were taken in the same month. PARD's assessment as of January 2017 indicates a 65% physical progress vis-à-vis contract disbursements of 77.5%.

Payments made for ineligible expenses

There were unsubstantiated reimbursable expenses amounting to approximately \$354,000 for 2013-2014 that were paid in monthly lump sums to the design and supervision consultants. Approximately \$535,000 and PGK152,000 were also paid in 2015 as lump sums. The PPRR was not provided with a copy of any contract variation.

Delayed physical progress

The PPRR engineer observed during the site visits in March 2016 that physical progress was significantly slow for one of the two civil works contracts. Works on only 3 out of the 12 bridges had started or about 22% physical progress collectively. This represents not more than 10% for the entire package. Due to the seriousness of this finding, OAI advised PARD, which immediately collaborated with DoW, mitigating measures to expedite implementation. As of January 2017, PARD assessed 65% physical progress.

Records management needs improvement

The PIU had difficulty in locating the key Project documents as Project records were not kept systematically at the PIU. As such, PPRR requirements were not promptly provided, some documents were not provided at all, and some of those provided were not the final/updated documents. The PPRR was not able to assess the appropriateness of the shortlisting procedures for an individual selection contract in the absence of key documents.

8. The PPRR findings were discussed with DoW, PIU, and PNRM, and their feedback on the preliminary findings, including DoW's and PARD's feedback on the draft report, is incorporated in this report. PARD in collaboration with DoW took immediate action on the serious issues referred by OAI after the fieldwork. PARD needs to continuously monitor the implementation progress of the recommendations to improve and strengthen the Project integrity and implementation. OAI plans to conduct a follow-up review in 2018 to assess the implementation status of the recommendations.

9. This is the third PPRR of a selected ADB-financed project in PNG, and second under the transport sector administered by DoW. The findings in the previous PPRR reports issued in 2006 and 2010 have recurred in this PPRR, particularly, the non-compliance with ADB *Procurement Guidelines*, evaluation irregularities, deficiencies in disbursements processes (i.e., unsubstantiated claims), delays in project implementation, and records management issues.

10. In their response to the draft report, PARD indicated that *"the recommendations in the report are (i) fully consistent with the outcomes sought by PARD/PNRM, (ii) warranted to mitigate identified past and ongoing procurement and financial management risks in PNG operational context, and (iii) consistent with ADB policies and procedures to ensure integrity, transparency and best practices in project administration and implementation."*

11. To assist DoW and PIU in ensuring integrity in project implementation, the PPRR team provided due diligence and PPRR-prepared checklists for executing agencies (procurement, financial management, and asset management) training during the fieldwork in Port Moresby.

12. OAI acknowledges the cooperation and support extended to the PPRR team by DoW, PIU and PARD, in particular PNRM.

I. OVERVIEW

1. The Office of Anticorruption and Integrity (OAI) of the Asian Development Bank (ADB) conducted the fieldwork of a project procurement-related review (PPRR)² of the Bridge Replacement for Improved Rural Access Sector Project (BRIRAP or “the Project”) in Port Moresby, Papua New Guinea (PNG) from 7 March to 1 April 2016. This report presents the findings and recommendations resulting from the PPRR.³

2. The PPRR verified Project compliance with applicable ADB policies, guidelines, and loan agreements, focusing on preventing and detecting integrity violations. The Project vulnerabilities and risks in the areas of procurement, financial management and disbursements, and asset management were identified through the review of all four contracts awarded under the Project as of 28 February 2016.

Project Background

3. ADB’s Country Partnership Strategy: Papua New Guinea (PNG; 2011-2015) provides support for the implementation of PNG’s Development Strategic Plan (DSP) 2010-2013. The DSP, PNG’s Strategic Vision 2050 and the Medium Term Development Plan 2011-2015 emphasize the lack of transport infrastructure as a constraint for PNG’s economic and social development.⁴ The BRIRAP, which includes five priority national roads, is the first phase of implementation of the program.

4. The BRIRAP, with a total estimated cost of \$100 million aims to improve access to market and social services for the rural population in selected provinces of PNG. ADB finances a total of \$90 million from its ordinary capital resources (\$40 million) and Asian Development Fund (\$50 million). The Government of PNG has allocated \$10 million to finance civil works, resettlement, and taxes and duties.

5. The Department of Works (DoW) is the executing and implementing agency. The project implementation unit (PIU) within DoW, is responsible for implementing the Project.

PPRR Scope and Coverage

6. The PPRR covered all four contracts aggregating \$55.5 million awarded as of the PPRR cut-off date.⁵ The PPRR encompassed the procurement processes and related documentation, financial management and disbursements, and Project outputs.

7. The PPRR (a) assessed the PIU’s internal controls and capacity, (b) examined the procurement processes and related documentation for all procurement stages, (c) verified the appropriateness of project disbursements and documentation, and (d) inspected the works on site on two contracts. These are reflected in **Figure 1**.

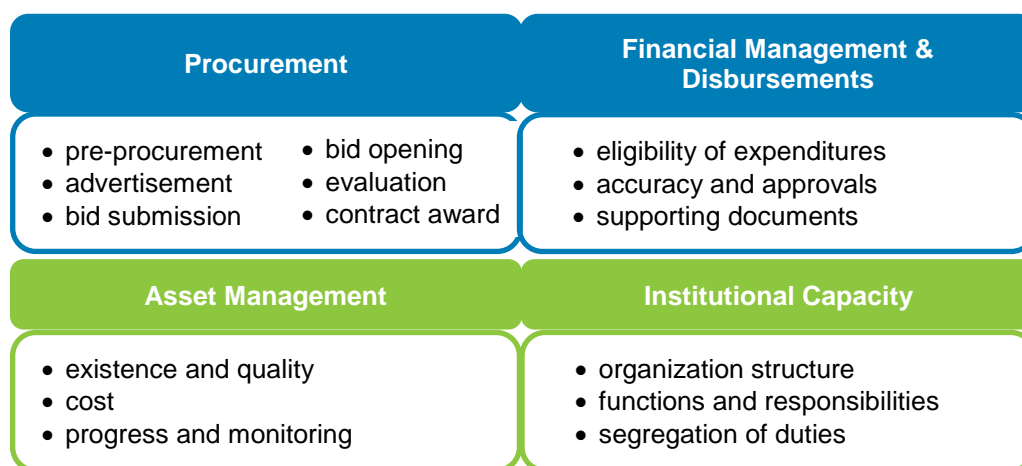
² The PPRR was conducted by OAI staff members and engaged consultants.

³ A finding refers to non-compliance or deviation from ADB’s Procurement Guidelines, Loan Disbursements Handbook, or Loan Agreements and irregularities noted.

⁴ ADB. August 2010. Papua New Guinea: Country Partnership Strategy (2011-2015).

⁵ PPRR cut-off date is 28 February 2016. The procurement modes of the 4 contracts were international competitive bidding (ICB) – 2 contracts, quality- and cost-based selection (QCBS) – 1 contract, and individual consultant selection (ICS) – 1 contract.

Figure 1: PPRR Coverage



II. FINDINGS AND RECOMMENDATIONS

PROJECT VULNERABILITIES

8. There were a total of 49 findings noted in the 4 contracts reviewed. The PPRR identified that approximately 75% (\$48.7 million) of the contracts are vulnerable to Project loss.⁶ The PPRR identified serious findings that if not promptly resolved would adversely affect the continuity of Project implementation. OAI referred to ADB's Pacific Department (PARD) specific issues necessitating urgent attention, which were addressed by PARD and PNRM in collaboration with DoW.

9. The PPRR findings are categorized into (a) procurement; (b) financial management and disbursements; (c) asset management; and (d) institutional capacity. Most of these findings are considered major issues where failure to take action could result in adverse consequences on the Project.

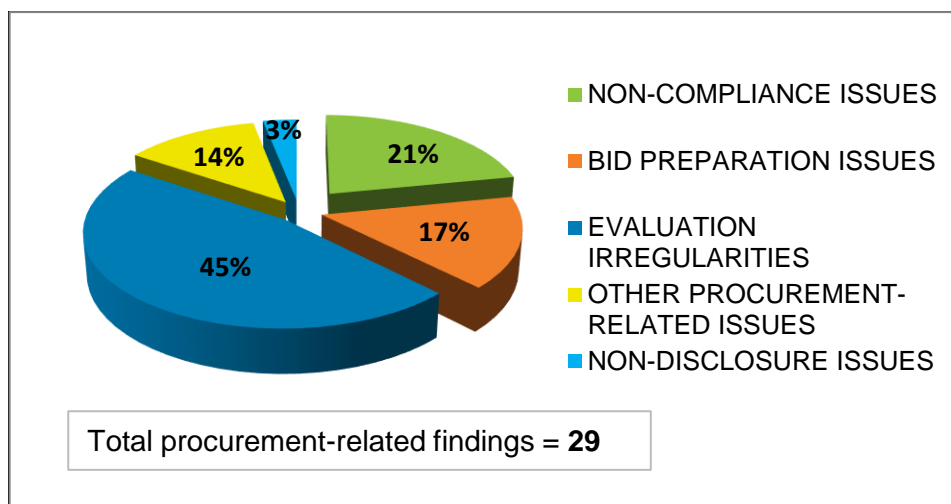
10. In their response to the draft report, PARD indicated that *"the recommendations in the report are (i) fully consistent with the outcomes sought by PARD/PNRM, (ii) warranted to mitigate identified past and ongoing procurement and financial management risks in PNG operational context, and (iii) consistent with ADB policies and procedures to ensure integrity, transparency and best practices in project administration and implementation."*

A. Procurement

11. There were 16 procurement observations noted in the 4 contracts, resulting in a total of 29 procurement-related findings across the 4 contracts. **Figure 2** illustrates the breakdown of the 29 findings. The key procurement findings are highlighted below.

⁶ Refer to footnote 1.

Figure 2: Nature of Procurement Findings



a. Potential integrity violations

12. There were instances where ADB's *Anticorruption Policy* may have been violated. In a civil works contract, one of the JV partners of Bidder A had a negative net worth for the past two years based on its financial statements.⁷ This JV partner submitted inconsistent financial data that were not substantiated by the financial statements, and therefore, is a potential misrepresentation.

13. In the same civil works contract, there were two versions of the bid evaluation report (BER) submitted to ADB's Papua New Guinea Resident Mission (PNRM). The first version recommended Bidder B as the lowest evaluated bidder whereas the second version recommended Bidder A as the lowest substantially responsive bidder. The second and final BER was submitted to PNRM (i) with conflicting conclusion - Bidder B was the lowest substantially responsive bidder, however the recommendation was to award the contract to Bidder A, (ii) without consulting the supervision consultant, who was a technical evaluation committee (TEC) member, on the changes, and (iii) with the identical TEC signature page from the first BER. Given the conflicting conclusion and recommendation in the BER, ADB's no objection to the BER's recommendation is not justified.

14. The PPRR team referred these matters to OAI Investigations for assessment and further investigation in accordance with ADB *Integrity Principles and Guidelines*.⁸

⁷ The said JV partner's financial capacity did not meet the criteria that bidders' net worth should be positive as required by Section 3 – Evaluation and Qualification Criteria, 2.3 Financial Situation, 2.3.1 Historical Financial Performance.

⁸ Should the findings of the investigation establish any wrongdoing by the bidder, the investigations may be referred to the Integrity Oversight Committee for consideration of debarment. Debarred parties shall be ineligible to participate in ADB-financed, -administered, or-supported activities. If investigative findings indicate that an official of a government committed or was engaged in an integrity violation, OAI will report its findings to ADB Management, and will work with Management and PARD to assess ways that ADB may respond pursuant to the Anticorruption Policy and other ADB rules, policies, and procedures. If investigative findings indicate that an ADB staff member committed an integrity violation or other misconduct, OAI will report its findings to ADB Budget, Personnel Management and Services Department to consider disciplinary action under ADB's Administrative Order 2.04 – Disciplinary Measures and Procedures.

b. Evaluation irregularities

15. Approximately 45% of the procurement findings pertain to irregularities in evaluation. The assessments of the bidders' financial capacity, personnel and equipment were not appropriately conducted as supporting documents were not validated and thoroughly reviewed during evaluation. This compromised the integrity of the procurement process of the 3 contracts.

<i>Findings</i>	<i>Risk Implication</i>
Inappropriate evaluation of bidder's financial capacity, key personnel, work experience, and equipment	The lack of thorough review by the TEC of the bid submissions against supporting documents has resulted in awarding of a contract to an unqualified bidder, which caused project implementation delays and waste of project funds.
Unclear evaluation of qualification and experience	The lack of factors considered during evaluation of qualification and experience created an impression of favoritism and compromised the procurement integrity.

16. ***Inappropriate evaluation of bidder's financial capacity.*** The TEC did not properly evaluate the financial capacity of the winning bidder in a civil works contract. This resulted in awarding the contract, amounting to \$25.3 million, to an unqualified contractor, which among others, caused implementation delays. **Figure 3** below summarizes the financial capacity of the unqualified JV partner of the winning bidder.

Figure 3: Evaluation of Financial Capacity of an Unqualified JV Partner

Bid Requirement*	Criteria	JV Partner	Met/Not Met Bid Requirement
Financial Situation	<ul style="list-style-type: none"> Audited financial statements for last 3 years (2011-2013) Positive net worth for the last year** 	<ul style="list-style-type: none"> Unaudited financial statements for 2.5 years (2009, 2010 and 2011 half year) All financial statements with negative net worth 	Not met
Average Annual Construction Turnover (AACT)	<ul style="list-style-type: none"> Audited financial statements for last 3 years (2011-2013) Minimum AACT of \$26.55 million) 	<ul style="list-style-type: none"> Unaudited financial statements for 2.5 years (2009, 2010 and 2011 half year) Could not be calculated in the absence of the required financial statements 	Not met
	<ul style="list-style-type: none"> Current Contract Commitments (of the bidder) and Financial Resources Requirement for the Contract (to be provided by DoW) 	Contract commitments	Cannot be assessed in the absence of DoW's information on "financial resource requirement" for the contract in Form FIN-4***

* Each JV partner must meet the requirements.

** Section 3, 2.3.1. of the bidding documents provides that "as a minimum, the Bidders' net worth for the last year calculated as the difference between total assets and total liabilities should be positive". As part of compliance requirement, each JV partner must meet the requirement.

*** Refer to para. 24.

17. The TEC evaluated compliance by bidders with the evaluation criteria based merely on the information provided by the bidders in the bid forms, and without validating these against the relevant figures in the financial statements submitted by bidders. The PIU acknowledged this deficiency as the TEC did not have a member with financial expertise to properly evaluate the financial capacity of bidders.⁹

18. In the same procurement exercise, the TEC assessed a losing bidder as compliant in its submission of Form FIN-1. However, one of the JV partners of such losing bidder failed to submit Form FIN-1, as required by the bidding documents.¹⁰

19. ***Inconsistent evaluation of bidder's capacity other than financial.*** In a civil works contract, the PPRR identified inconsistent evaluation of the winning bidder's qualification in the BER as far as equipment, key personnel and work experience were concerned. The BER indicated the winning bidder as compliant in these criteria when they were not. Furthermore, both JV partners of the winning bidder did not submit form EXP-1(b) as part of work experience requirement, which is a violation of Section 4 of the bid documents.¹¹ While equipment and personnel criteria are not disqualifying factors, criteria on work experience is an important factor to establish the bidder's capacity to perform under the contract.

20. ***Recommendations.*** DoW and PIU should ensure that the TEC has adequate capacity to appropriately and accurately evaluate the capacity of bidders to perform under the contract. This includes: (i) thoroughly reviewing and validating the bidders' FIN form information vis-à-vis supporting documents (e.g., financial statements, key personnel CVs, experience certifications, etc.); and (ii) documenting decisions and validating results. PNRM should: (i) collaborate with DoW and PIU on the need to provide training on bid evaluation to existing and potential TEC members to ensure consistency and appropriateness of the evaluation; and (ii) consider randomly calling in and reviewing some of the bids during review of bid evaluation report to ensure appropriateness of the evaluation before providing ADB's "no objection".

21. ***Actions being taken to implement the recommendations.***¹² PARD has initiated actions to address the findings. Through technical assistance and other resources, for example, PARD/PNRM has increased training and provided international procurement specialists to the executing agencies in PNG. These are in an effort to improve the quality of bidding documents, bid evaluation procedures, and preparation of bid evaluation reports. PARD/PNRM will continue to work closely with the executing agencies in the drafting of refined standard bidding documents to more explicitly define technical and financial responsiveness criteria, which will facilitate greater clarity in evaluation.

⁹ In their response to the draft report, DoW indicated that while they did not have a financial expert member of the TEC, "any and all financial advice needed was sought from financial experts in the PIU and DoW prior to issuing the BER recommendation."

¹⁰ While the PIU indicated that the BER was reviewed by ADB and had gone back and forth for clarifications and revisions until the BER was given ADB's no objection, ADB did not have copies of the bid submissions of bidders to validate the assessment in the BER. DoW informed the PPRR team that the TEC will strengthen its financial expertise in all future bid evaluations.

¹¹ Section 4 – Bidding Forms. Form EXP-1(b): Construction Experience in Key Activities provides that if the bidder is a JV, all parties must prepare the form using one page per contract. Exp-1 provides that Bidders must prove their experiences as stated in Section 3 – 2.4.2 by submitting the following documents for each contract in the last ten years: Plan, Profile and Section used or approved with date and title of the project, which show span length and type of construction, plate girder and length of steel pipe pile and cofferdam in the river. (A sample of the plan, profile and section was attached in the next page). Also, the bidder must submit certificates issued by the Employers or Clients stating that the contractor completed the project satisfactorily.

¹² Based on PARD's response dated 14 March 2017 to the draft PPRR report.

22. **Unclear evaluation of qualification and experience.** Of the 25 candidates who submitted expressions of interest for the individual consulting services contract of the Project Implementation Specialist, 6 were shortlisted. At the time of fieldwork, the PPRR team received copies of the consultant's profiles for only 4 of these 6 candidates. The team was led to believe that these were the documents used during evaluation.¹³ Copies of the CVs were not provided. Based on the consultant's profiles, the evaluation of the winning consultant's qualification and experience was not clear as the consultant's education qualification was not indicated in the consultant's profile. The consultant awarded the contract was given 24 out of 30 points for country experience when the consultant appeared not to be qualified based on the profile.¹⁴ No justification for the selection was identified, therefore casting doubt on the independence and impartiality of the selection process.

23. In their response to the draft report, DoW provided the CV of the winning consultant and opined that the PPRR team should have retrieved these documents from ADB Consulting Management System (CMS), where the consultants uploaded their CVs at the time of submitting their expressions of interest (EOI). However, the PPRR covers the documents that were provided by the executing agency or the PIU to ensure that these are the same documents used during evaluation. The PPRR team confirms that the winning consultant's CV is in the CMS at the EOI stage, and that the consultant is noted to be qualified in terms of his experience. However, the CV provided by DoW to substantiate their comments to the draft report, supposedly coming from CMS was signed by the expert on 21 January 2015, while the evaluation was completed in June 2014. The credibility of the evaluation process and records management is therefore, questionable.¹⁵

c. Bid preparation issues

<i>Findings</i>	<i>Risk Implication</i>
Absence of crucial information in Form Fin-4 (i.e., financial resources requirement for the subject contract, which should be supplied by DoW)	There was no appropriate basis to assess whether the bidder's financial resources would meet the financial requirement for the contract, and therefore compromised the integrity of the procurement process.
Inadequate preparation of standard bid documents	The inadequate preparation of standard bid documents resulted in the issuance of multiple addenda causing procurement delays.
Inconsistencies in advertisement information between ADB website and Newspaper	Inconsistencies in advertisement information may cause confusion among bidders and may put other bidders at a disadvantage.

24. **Absence of crucial information in Form FIN-4.** In both civil works contracts, DoW as the employer did not specify the amount for "*financial resources requirement for the subject contract*" in Form FIN-4 as required. This is to appropriately assess if the bidder's financial

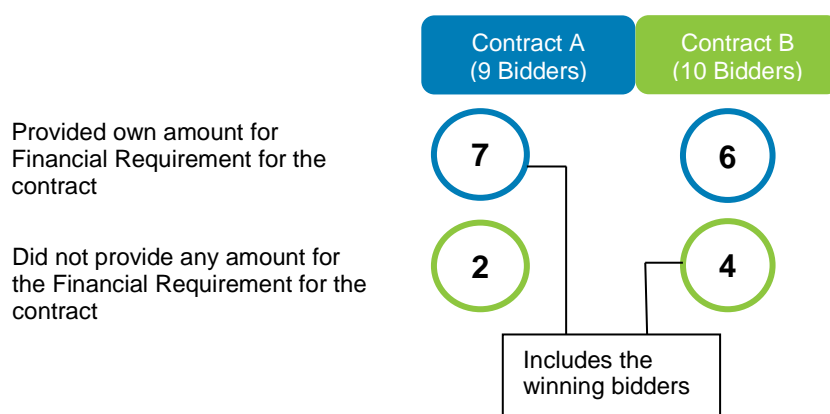
¹³ The consultants' profiles were from ADB's Consulting Management System during submission of expressions-of-interest.

¹⁴ The technical evaluation report 2.3 "Adequacy of country consulting experience" states that "*Under this category applicants were considered for their specific experience in Papua New Guinea or in countries of similar geographical regions in a similar capacity.*" The profile of the consultant awarded the contract indicated that the consultant worked in the Philippines, Thailand, India, and USA. DoW provided a copy of the expert's CV in response to the draft report, however, the said CV is dated 9 months after the EOI submission date.

¹⁵ The records management issues and recommendation are in paras. 73-77 of this report.

resources would meet the financial requirement of the contract.¹⁶ As such, some bidders provided their own “*financial requirement for the subject contract*” figures, while others did not provide any (**Figure 4**). PNRM also failed to detect this during its review of the draft bid documents. There was therefore, no appropriate basis to assess whether the bidder’s financial resources would meet the financial requirement for the contract. The TEC used each of the bidders’ figures in the bid submissions to assess the criteria, which could have placed other bidders at a disadvantage, and therefore compromised the integrity of the procurement process.¹⁷

Figure 4: Snapshot of Bidder Submissions With and Without Financial Resources Requirement



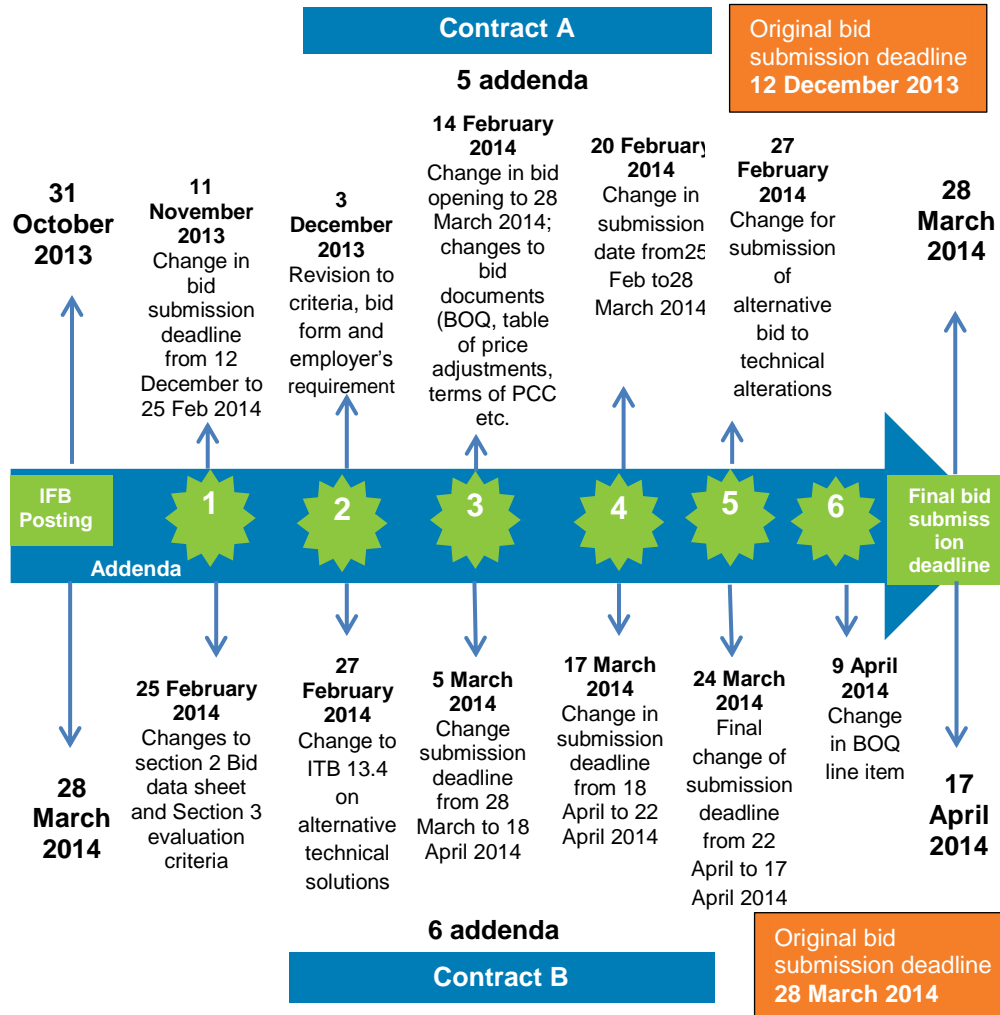
25. **Recommendation.** DoW and PIU should refer to the User’s Guide on Procurement of Works for guidance and instructions during preparation of the bid documents and ensure that all crucial information is appropriately and fully disclosed. PNRM should thoroughly review draft bid documents submitted by the PIU to ensure the required information is complete so that the procurement is conducted appropriately.

26. ***Inadequate preparation of standard bid documents.*** The PIU issued multiple addenda for both civil works packages from the time of posting of the Invitation for Bid (IFB) up to the final submission deadline as illustrated in **Figure 5**.

¹⁶ Section 2.3.3 Financial Resources of the bidding document. Form FIN-4 requires the employer (i.e., DoW) to specify the “*financial requirement for the subject contract*” to be computed as $2 \times \text{Estimated Contract Value (inclusive of taxes and duties)} / \text{Completion period in months}$. The calculation formula was footnoted in the said Form.

¹⁷ The PIU indicated that the standard bid documents were approved by ADB before these were advertised.

Figure 5: Multiple Addenda Issued



27. There were 5 addenda issued for Contract A, and 6 addenda for Contract B, which resulted in extension of bid submission deadlines by 106 days and 23 days, respectively. This signifies that certain decisions for consideration in the standard bid documents were not appropriately taken into account during bid preparation, which caused procurement delays.¹⁸

28. **Recommendation.** DoW and PIU should ensure that the standard bidding documents are carefully drafted, reviewed and approved to ensure that all salient procurement information are appropriately considered to avoid issuances of multiple bid addenda that may delay the procurement process.

29. **Inconsistencies in advertisement information between ADB website and newspaper.** There were inconsistencies in the advertisements posted on the ADB website and the newspaper for procurement of one of the civil works contracts.¹⁹ These are (i) contact details

¹⁸ These addenda pertained to changes in submission deadlines; pre-bid meeting dates; bid opening dates; evaluation and qualification criteria, bid forms and employer's requirement; bid data sheet, bill of quantity line items, tables of adjustments, terms of particular conditions of contract; and submission of alternative bids.

¹⁹ Procurement of Contract B was advertised on ADB website on 19 November 2013 and in "The National" newspaper on 31 October 2013.

for clarification and inspection of bid documents, (ii) requirement on bid security or bid securing declaration, (iii) date of availability of bid documents, and (iv) work experience. The ADB advertisement contained the required information, whereas the information in the newspaper was inadequate. These inconsistencies cause confusion among bidders, and may put qualified bidders at a disadvantage.

30. *Recommendation.* DoW, PIU and PNRM should ensure that the advertisement, specifically the Information for Bid, has complete and accurate information before its publication.

d. Non-compliance issues

31. Twenty one percent of the procurement-related findings pertained to non-compliance with ADB Procurement Guidelines, Loan Agreement and contract terms.²⁰

<i>Findings</i>	<i>Risk Implication</i>
Inconsistencies in notification to bidders of addenda in bid documents	Inconsistencies in the notification of changes in bid documents may put other bidders at an unfair competitive advantage.
Insufficient time to incorporate changes to the bid documents	The inadequate preparation of standard bid documents resulted in about 50% of bidders lacking rates and prices for items indicated in the Addendum. This may have placed other bidders at an unfair competitive advantage.

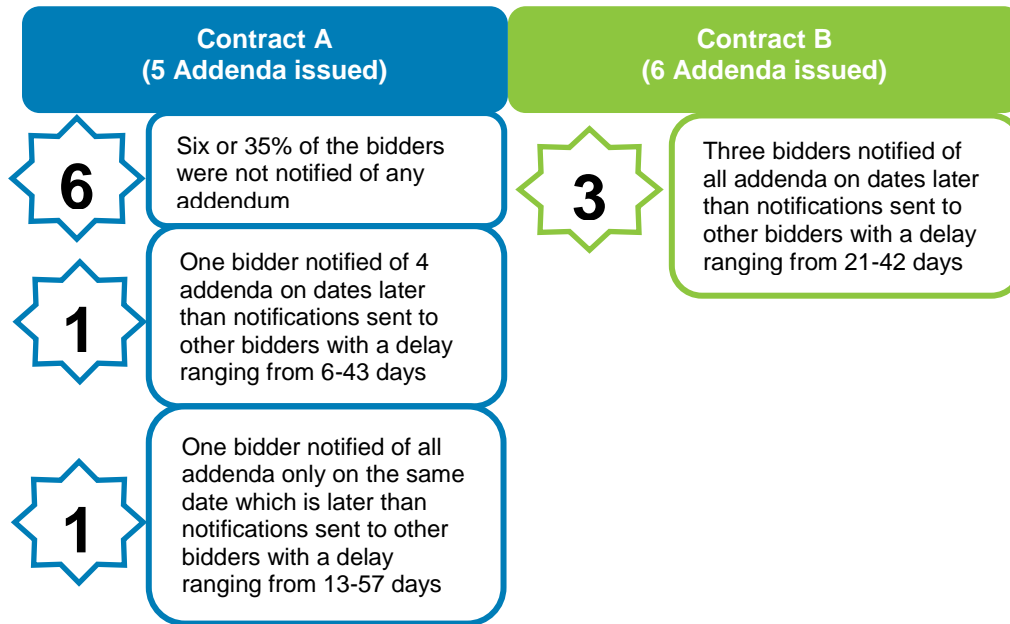
32. ***Inconsistencies in notification to bidders of addenda in bid documents.*** The addenda to the standard bid documents issued described in paragraphs 26-27 were not sent to all bidders on the same date. Some bidders did not receive or were not sent the addenda. Apart from not complying with ADB Procurement Guidelines,²¹ this puts bidders at an unfair competitive advantage. It is a likely reason that about 53% of those who purchased bid documents, submitted bids for one of the civil works contracts.²² In addition, 5 out of 10 bidders did not submit rates and prices for BOQ line items in Addendum 6 of Contract B. **Figure 6** below summarizes the number of bidders notified of the addenda at later dates than the others.

²⁰ Findings on non-compliance issues relating to contract terms and the Loan Agreement are included in the relevant portions of the report (i.e., procurement, financial management and disbursements, and asset management), as applicable.

²¹ ADB Procurement Guidelines para. 2.18 provides that “all prospective bidders shall be provided the same information, and shall be assured of equal opportunities to obtain additional information on a timely basis.... Minutes of the conference shall be provided to all prospective bidders with a copy to ADB. Any additional information, clarification, correction of errors, or modifications of bidding documents shall be sent to each recipient of the original bidding documents in sufficient time before the deadline for receipt of bids to enable bidders to take appropriate actions. If necessary, the deadline shall be extended.”

²² Only 9 of the 17 bidders who purchased bid documents for Contract A submitted bids.

Figure 6: Summary of Notification of Addenda to bidders



33. **Recommendation.** To maintain fair competition among qualified bidders, DoW and PIU should establish a monitoring mechanism to ensure that any changes to the issued bidding documents are communicated to all the bidders on the same date.

e. Others

34. **Inconsistent application of out-of-pocket expenses in the contract.** The appendix to the contract of DoW with the Project Implementation Specialist provided for 12 months instead of 11 months accommodation.²³ The expert was provided with one month (i.e., 30 days) per diem of \$14,400 and accommodation for 11 months of \$8,150 per month for field service. This signifies that the accuracy and consistency of the contract provisions vis-à-vis the calculations in the appendix for out-of-pocket expenses were not thoroughly reviewed before the contract was signed. Furthermore, while the appendix to the contract includes payment of accommodation of \$8,150 per month in lump sum, payments for the consultant's accommodation for partial months were pro-rated at a 30-calendar day rate. Although this resulted in a decrease in overall out-of-pocket expenses, there was no contract variation for payments to be made at a 30-calendar-day rate for partial months.

35. **Recommendations.** DoW and PIU should thoroughly review the contract provisions and pertinent calculations to avoid over/under payments. Also, DoW and PIU should issue contract variations to (i) adjust the provision for accommodation from 12 to 11 months in the appendix to the contract,²⁴ and (ii) include a provision about pro-rated calculation for consultant's accommodation for partial months.

²³ The contract with the Project Implementation Specialist originally provided that the consultant's inputs are for 12 months, where 1 month inputs will be at the Home Office and 11 months in the Field Office, within a 2-year period between 16 February 2015 and 16 February 2017 on an intermittent basis.

²⁴ DoW informed the PPRR team that the consultant's contract has been varied to provide an additional month of Field Service, without increasing the overall contract price or the original 11-month allowance for accommodation at the lump sum rate of \$8,150. The PPRR team received on 7 July 2017 from DoW, a copy of the Variation Order No. 2 dated 10 March 2017.

B. Financial Management and Disbursements

36. The PPRR identified serious irregularities in the Project financial management, controls and disbursement processes, which if not corrected and mitigated, may result in loss of project funds. The key findings are presented below.

<i>Findings</i>	<i>Risk Implication</i>
Substantial disbursements despite slow progress	Placed the Project at risk of loss of project funds especially if the contractor abandons the works. This scheme signifies fraud or theft.
Payments made for ineligible expenses	Payments of ineligible expenses leads to increase in project costs.
Inadequate supporting documents	Payments made for claims with inadequate substantiation led to overpayments and loss of project funds.
Contract provision regarding advance payment not followed	The undocumented change in the contract provision (i.e., no contract variation) diminishes the transparency of contract implementation.
No separate project accounts and separate audited project financial statements	The absence of separate project accounts and separate audited project financial statements contravenes the Loan Agreement, and diminishes transparency and accountability.

37. ***Substantial disbursements despite slow progress.*** The PPRR team noted that 60% of the contract amount for Contract B was disbursed as of 28 February 2016. This was significantly higher compared to the PPRR estimate of 10% physical completion during the site inspection in March 2016.²⁵ While a significant amount of payment was made for expensive materials in the bridges, physical progress was low at the time of asset inspection. This exposed the Project to risk of loss of project funds especially if the contractor further delays the works or at worst, abandons the works. Given the severity of the issue, OAI promptly recommended for PARD to temporarily suspend disbursements to the contractor until actual physical progress becomes commensurate with the total disbursements.²⁶

Finding partially addressed

38. PARD and PNRM worked closely with DoW in outlining a progress recovery plan to expedite implementation. This was done through among others, increased deployment of plant and equipment, labor and material resources, and allocating additional resources for on-site project administration and monitoring. As of January 2017, PARD assessed the physical progress at 65%, with contract disbursements at 77.5%.

39. ***Recommendation.*** DoW, PIU and PNRM should continue to ensure close coordination and monitoring of project activities, i.e., contract implementation progress vis-à-vis

²⁵ The disbursed claims comprised the following: (i) mobilization advance (20%), (ii) interim payment certificates (IPC) 1 and 2 for general and establishment cost, works and material (26%), and (iii) IPC 3 for works and material (14%).

²⁶ PARD (through PNRM) temporarily suspended payment to the contractor on 5 July 2016, but lifted the suspension on 13 July 2016, as remedial actions had been taken. PARD's assessment as of January 2017 indicates a 65% physical progress vis-à-vis contract disbursements of 77.5%.

disbursements, and ensure that mitigating measures to prevent overpayments are established and monitored.

40. **Payments made for ineligible insurance expenses.** The contract with the Project Implementation Specialist provides for the consultant to be fully responsible for taking out and maintaining adequate medical, and accidental death and injury insurance incurred during the terms of engagement. The consultant, however had been claiming for monthly insurance of \$250 since June 2015 (or a total of \$1,000 until the September 2015 paid claims reviewed during the PPRR).²⁷

Finding addressed

41. DoW indicated that the consultant has returned all claims for monthly insurance of \$250. This was validated by the PPRR team.²⁸

42. **Payments made for ineligible per diem.** The contract with the same consultant also provides that no per diem is paid on the day of the consultant's arrival in his usual place of residence/home office.²⁹ However, the consultant claimed and was paid per diem of \$350 on the day of arrival in Port Moresby, PNG in 2 trips (total of \$700), included in August 2015 and September 2015 claims.

Finding addressed

43. DoW indicated that the consultant has offset the per diem claims on arrival in Port Moresby, PNG, included in August 2015, September 2015, April 2016 and May-June 2016 claims. This was validated by the PPRR team.³⁰

44. **Ineligible out-of-pocket expenses.** The appendix to the contract provides that out-of-pocket expenses are reimbursable at cost with supporting documents/receipts unless otherwise specified. The PPRR noted that the invoice dated 30 June 2015 amounting to \$34,890 for the remuneration and out-of-pocket expenses of the same consultant was not supported with the consultant's timesheet and monthly report as required by the contract.³¹ There was no notation on the invoice whether or not the required report was submitted and found acceptable to warrant payment.³² Also, a one-time claim for visa collection and hotel accommodation included in the said invoice did not include official receipts.³³

²⁷ S-9 Insurance: Contract for the Project Implementation Specialist.

²⁸ A total amount of \$2,365.15, representing "Others-Insurance" was offset against the consultant's claims for the period 15 December 2016 through 28 February 2017 under invoice no. PIS12 dated 2 March 2017.

²⁹ Appendix 3 of the consultant's contract.

³⁰ A total of \$1,400, representing per diem-in-country travel was offset against the consultant's claims for the period 1-31 July 2016 under invoice no. PIS09 dated 1 August 2016.

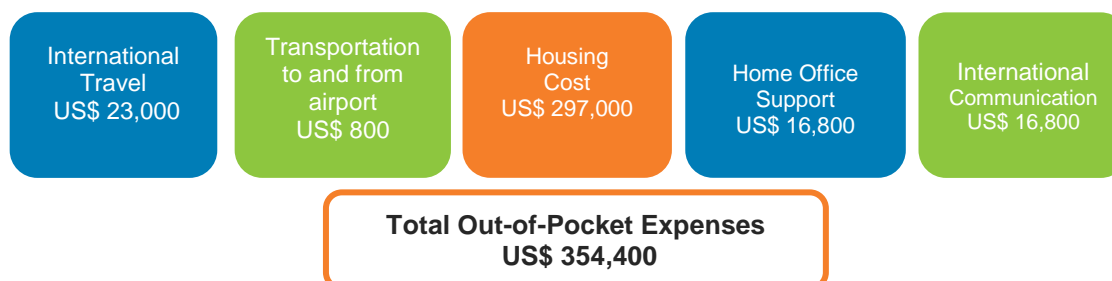
³¹ Appendix 1-C of the consultant's contract, G-9: Reports – The Consultant shall submit to the EA reports and/or other written and electronic documents as required in the TOR. Appendix 2 of the consultant's contract, TOR: Output/Reporting Requirement. Monthly report to be produced as part of the monthly claim that is to be submitted with the monthly time sheet.

³² In their response to the draft report, DoW provided the PPRR team with a copy of the invoice, which included a signed timesheet and a full-sized report. DoW indicated that they consider DoW's "signatures on both the consultant's timesheets and invoices as certification of satisfactory performance. However, the Consultant has modified timesheets to clarify DoW signatures for certification as satisfactory, along with the cover of the accompanying progress report submitted with the invoice."

³³ DoW indicated that this out-of-pocket expense was intended as lump sum and not at-cost. As this was also not specified as lump sum in the contract, the contract has been modified through variation order to specify lump sum for this item, which was previously agreed between DoW and the consultant. The PPRR team received on 7 July 2017 from DoW a copy of the Variation Order No. 2 dated 10 March 2017.

45. There were reimbursable expenses that were claimed by the Design and Supervision Consultant and paid in monthly lump sum and therefore unsubstantiated. These are against the contract terms.³⁴ The 2013 and 2014 expenses amounting to a total of \$354,400 were air travel, transportation to and from airport, accommodation cost, international communication at home office, and home office support (**Figure 7**). The 2013 and 2014 vouchers showing a summary of expenses and supporting documents were not signed or stamped by the consultant but approved by the PIU for payment.

Figure 7: Summary of Reimbursable Expenses Claimed in Lump-sum



46. For 2015, a total of \$535,675 and PGK152,800 were invoiced by the consultant and paid in lump sum.³⁵ Except for the letter dated 9 January 2015 from the consultant to the PIU which, among others indicated that the consultant understood that under the “Method of Monthly billing (Phase 2)”, the “*contract amount is lump sum, so that we shall request monthly billing as lump sum each month*”, the PPRR was not provided with any documented approval from the PIU. No contract variation allowing the reimbursable expenses to be paid in lump sum was also provided; hence eligibility of these expenses for lump sum payments cannot be appropriately established.³⁶

47. Expenses which are not within the contract terms or unsubstantiated are considered ineligible and indicate that claims were not thoroughly reviewed vis-à-vis the contract provisions. This provides opportunity for fraud and exposes the Project to loss of funds. The PIU indicated that they will adjust future claims relating to those payments not within the contract terms. They will also prudently review claims before certifying payments.

48. **Recommendations.** DoW and PIU should ensure that: (i) payments for ineligible expenses noted by the PPRR are clawed back from the consultant; (ii) payments to the consultant are in accordance with the contract terms and properly substantiated; and (iii) justifications for payment decisions that are against the contract terms are documented. On the out-of-pocket expenses paid in lump sum to the Design and Supervision Consultant, these should be considered ineligible

³⁴ General Conditions of Contract (GCC) provides that reimbursable expenses are those actually and reasonably incurred by the consultant in the performance of the services, as specified in the Special Conditions of Contract. Special Conditions of Contract (SCC) Clause 4.6(b) provides “Mode of Billing and Payment – As soon as practicable and no later than fifteen (15) days after the end of each calendar month during the period of the Services, or after the end of each time intervals otherwise indicated in SCC, the Consultant shall submit to the Client, in duplicate, itemized statements, accompanied by copies of invoices, vouchers and other appropriate supporting materials, of the amounts payable pursuant to Clauses GC 6.3 and GC 6.4 for such month.”

³⁵ The out-of-pocket expenses in 2015 were expenses paid in local currency for the driver, car maintenance and fuel charges, and national travel; and those paid in US dollars are air travel, transportation to and from airport, accommodation cost, housing allowance paid other than POM, international communication at home office, home office support, and office operations. Appendix D to the contract included a budget of \$20,000 for the purchase of equipment.

³⁶ DoW indicated that the Design and Supervision Consultant was paid these expenses as a lump sum based on verbal agreement with DoW, and that no proper addendum was prepared to reflect this in the contract.

until DoW and PIU provide the PPRR team with appropriate documentation to justify lump sum payments.

49. ***Inadequate supporting documents to substantiate claims.*** The monthly invoices for services rendered by the Design and Supervision Consultant were supported only by summary timesheets. No individual timesheets were provided to verify and validate the accuracy of claims. Also, the then Project Manager did not sign the summary timesheets for the months of February 2014 and July to December 2014 before endorsing the claims for payment. The PPRR could not establish how the PIU endorsed payments of the consultant's claims without thoroughly reviewing the claims against the individual timesheets. The lack of review may lead to overpayments and abuse of Project funds.

50. The PIU acknowledged the importance of reviewing individual timesheets, and indicated that they would ensure that these are submitted to support the consultant's claims. The PIU further indicated that they will ensure that prudent reviews are done before certifying claims for payments.

51. ***Recommendation.*** The PIU should ensure that consultant's claims are appropriately substantiated with individual timesheets, and they are thoroughly reviewed vis-à-vis the summary timesheets, before withdrawal applications are approved for payment.

52. ***Contract provision regarding advance payment not followed.*** The contractors of both civil works contracts were each paid an advance of 20% of the total contract amount, whereas the respective contracts provide only for a 10% advance payment. The justifications for the increase were "for quick mobilization" and "to cover the cost for mobilization and transportation due to the locations of bridges."³⁷ The change in the advance payment increase, however, was not covered by a contract variation and thus, diminished the transparency of contract implementation.

53. The withdrawal applications on advance payment claims for both contracts were processed by ADB Controller's Department on the basis of PNRM's issuance of the Procurement Contract Update Sheet (PCUS). It revised the advance payment percentage in ADB's Loan Financial Information System from 10% to 20%.³⁸ PNRM issued the PCUS without the contract variation documents agreed upon with the contractors.³⁹ Without the contract variation, the issuance of the PCUS is a violation of ADB's Project Administration Instruction (PAI) No. 3.12. The PAI requires an amended contract, and payment therefore was not appropriately substantiated. Furthermore, PNRM did not follow-up with DoW on the issuance of a contract variation agreed by the respective contractors. This laxity in PNRM's part exposed the Project to the risk of increased irregularities during project implementation.

54. ***Recommendations.*** PARD and PNRM should ensure that (i) staff is held accountable for the irregularity noted in issuing the PCUS without a contract variation, and (ii) future issuances of PCUS are appropriately substantiated by contract variations in compliance with PAI 3.12. DoW

³⁷ The justifications for the increase in advance payment from 10% to 20% of contract amount were noted in the (i) letter dated 18 December 2014 from the PIU to the Country Director, PNRM, and (ii) e-mail dated 18 December 2014 from PNRM to ADB Controller's Department clarifying the 20% increase.

³⁸ ADB Project Instructions No. 3.12 dated 13 August 2014 provides that PCUS is issued by ADB's project division in case of amendment by the executing agency to a contract, by inputting the amended data into the LFIS. This will be done only after the approval of contract amendment by ADB. The PCUS confirms that a procurement contract is in order and will be used for loan disbursements.

³⁹ The basis of PNRM in issuing the PCUS for each contract: the Minutes of DoW/ADB Coordination Meeting held in October 2014 and PIU's letter dated 18 December 2014 to PNRM that among others, DoW has advised the contractors that 20% of the contract amount will be applied as advance payment for both contracts and that the contractors have forwarded the invoices accordingly.

and PIU should ensure that contract variations to reflect changes in advance payment provisions, if any, are issued for future civil works contracts.

55. ***Inadequate project audited financial statements and review thereof.*** ADB's share of financing BRIRAP has been disbursed through direct payment. The government's share of the Project funds was deposited in the same trust account of a previous ADB project, which closed in November 2010.⁴⁰ Until 2015, DoW did not maintain separate project accounts for BRIRAP⁴¹, and the audit was only done on the government counterpart funds. It was consolidated with the audit report as of 31 December 2014 issued by the Auditor General's Office for the previous ADB project.⁴² This is a violation of the Loan Agreement and diminishes the transparency and accountability of the Project.⁴³

56. Subsequent to the PPRR fieldwork, PNRM provided the PPRR team with the Project's recent audited project financial statements for the year ended 31 December 2015. The Auditor General's Office provided an unqualified opinion.⁴⁴ The audited project financial statements, however, contain deficiencies as follows:

- The financial statements covered only the counterpart funds for the Project and did not include ADB's loan and its utilization, hence, incomplete.⁴⁵
- The auditor's opinion included the utilization of the imprest account when this Project does not have an imprest fund account, hence, the questionable auditor's opinion.

57. The audited project financial statements were not reviewed by PNRM as required by the PAI No. 5.07.⁴⁶ Therefore, there is no determination of their acceptability, and analysis of the financial information to monitor project progress and performance. Thus, if there are necessary

⁴⁰ Highlands Road Maintenance and Upgrading Project (Loan 1709-PNG and Supplementary Loans 2242-PNG and 2243-PNG). The PIU disclosed that DoW's attempt to establish a new trust account for BRIRAP was not successful due to stringent government requirements to open trust accounts. The PIU informed that arrangements will be made to close the previous loan account and a new trust account will be opened for BRIRAP.

⁴¹ In their response to the draft report, DoW indicated that a separate account has since been established for BRIRAP.

⁴² The PPRR reviewed the consolidated audit report as of 31 December 2014 for both the previous project and BRIRAP.

⁴³ Section 4.02 (loan agreement for special operations) and 4.05 (loan agreement for ordinary operations) provides "(a) The Borrower shall (i) maintain, or caused to be maintained, separate accounts for the project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB."

⁴⁴ The Independent Audit Report on the Accounts of BRIRAP for the year ended 31 December 2015 was received by PNRM on 28 October 2016. The Auditor General's opinion indicated "the financial statements present fairly, in all material respects, the financial position of BRIRAP as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards....With respect to disbursement, ADB paid on the basis of Certified Statements of Expenditure (SOE), adequate supporting documents were maintained to support each claim for reimbursement of expenditure incurred and considered eligible for financing under the BRIRAP. The ADB Imprest Account gives a true and fair view of the receipts collected and payments made during the year ended and the status of the Imprest Account as at 31 December 2015. The GoPNG Counterpart Trust Account gives a true and fair view of the monies received and exp(e)nded during the year and the status of the Counterpart Funding by the State as at 31 December 2015."

⁴⁵ In its response to the draft report, DoW indicated that "ADB advised the PIU to not submit the ADB-financed component of the project for PNG's auditing purposes." PNRM, however, clarified that "there is no official document to substantiate the statement or response from DoW." The Handbook for Borrowers on the Financial Management and Analysis of Projects, Section 5.15 provides the basic principles that apply to all project financial statements issued by borrowers, one of which pertain to disclosure of full accountability for all funds of the borrower, other donors and lenders, and ADB.

⁴⁶ Project Administration Instructions No. 5.07, para. 23 requires the project audited financial statements and audit report to be reviewed by the project team leader within 8 weeks of receipt by ADB to (i) determine their acceptability and the level of compliance with financial covenants, (ii) analyze the financial information as part of the project progress and financial performance monitoring, and (iii) undertaken necessary measures, as appropriate.

measures to be taken, they are not communicated to DoW. PNRM staff informed the PPRR team that in the absence of a dedicated specialist in PNRM to review the audit reports and complete the standard review checklist, there is no firm arrangement in place on who should review the audited project financial statements.

58. ***Recommendations.*** PARD and PNRM should ensure that (i) ADB's audit requirements for loan-financed projects, specifically the contents of audited financial statements and audit reports are appropriately explained to and understood by DoW and PIU; (ii) the Project's 2015 audited project financial statements and all PNG's project audited financial statements and audit reports are reviewed in accordance with PAI No. 5.07; (iii) results of the review are communicated to DoW; and (iv) decisions made on audit and submission of audited project financial statements are documented. DoW should: (i) prepare project financial statements showing: (a) sources of project financing (i.e., ADB and Government funds); and (b) use of funds summarized under project disbursement categories in the Loan Agreement; (ii) ensure that the auditors understand ADB's audit requirements; and (iii) take action on PARD's/PNRM's review comments to the 2015 and future audited project financial statements, if any.

C. Asset Management

59. The PPRR engineer visited the bridge sites covering the two civil works contracts in March 2016.⁴⁷ The key findings are highlighted below.

<i>Findings</i>	<i>Risk Implication</i>
Lack of activity on site during asset inspection	Lack of activity on site results in project delays which, if not mitigated may lead to further implementation delays, poor quality output and waste of project funds.
Delayed physical progress of works	Delay in physical progress of works leads to increase in project cost, waste of project funds and deferred benefits to intended beneficiaries.

60. ***Lack of activity on site during asset inspection.*** The PPRR engineer's field visits identified that work was slow as there was a lack of activity. There was limited equipment and personnel who were working on site especially for civil works Contract B. It was evident that project delays were encountered, which if not mitigated would lead to further implementation delays, poor quality output and waste of project funds.

61. ***Delayed physical progress of works.*** Contract B: During the site visits on 14 March 2016, the PPRR engineer observed delays in this civil works contract and that physical progress was significantly slow. Only 3 out of 12 bridges had started and individual progress for these 3 bridges were at 2.5%, 36.5% and 26.3%, respectively, or about 22% collectively.⁴⁸ This represents no more than 10% progress for the entire Contract. However, the monthly progress report for the end of February 2016 indicates that the actual overall progress of the works for the entire Contract was 34.27% vis-à-vis the total planned progress of 56.15%.⁴⁹ The PPRR could not establish the basis for the calculation of the overall progress of works in the progress report.

⁴⁷ The site visits for Contract A was conducted on 10-11 March 2016, and those for Contract B, for 4 bridge sites, were visited on 14 March 2016.

⁴⁸ Only clearing of the site in preparation for the works was done for the 4th bridge.

⁴⁹ As of 31 May 2016, the PPRR Engineer conducted a follow-up visit at the PIU and reported that works under the contract were in progress and catching up. He was advised by the PIU Project Director that the contractor was reaching an agreement with an experienced sub-contractor for the construction of 4 out of 12 bridges at the Eastern end. Also, the PPRR Engineer informed OAI that PNRM and the PIU Project Director visited the sites in May 2016.

Finding partially addressed

62. Upon advice of the seriousness of the findings in relation to Contract B, PARD immediately (i) met and discussed with DoW the gap between physical progress against disbursements, and reached an agreement with the DoW to increase monitoring of the contract activities, (ii) undertook a Special Administration Mission to the project sites,⁵⁰ and (iii) initiated daily communications with DoW to implement the agreed-upon measures to improve project implementation.

63. PNRM's Special Administration Mission verified that actions had been taken by the contractor to expedite implementation. There were ongoing works for 8 bridges as compared to only 3 in March 2016.⁵¹ With the deployment of labor and material resources, the Special Administration Mission observed that substantial physical progress has been achieved compared with PPRR engineer's progress assessment in March 2016. The overall progress as of end of January 2017 was assessed at 65% completion.

64. PARD informed OAI that they continue to closely monitor the mitigation efforts outlined in the progress recovery plan. They are working with DoW to ensure that DoW allocates additional resources for on-site project administration and monitoring. PARD is also working closely with DoW to better assess physical progress made under Interim Progress Certificates to more accurately update the S-curves and other reporting tools.

65. Recommendation. PARD (through PNRM) and DoW continue to closely monitor the mitigation measures established to ensure contracts are implemented as scheduled. PARD and DoW should also closely monitor the performance of engaged contractors, consultants and DoW's engineers, and consider preparing a performance report which should reflect the performance of these engaged parties. The performance reports may be used as reference in future engagement of contractors, consultants, and engineers.

D. Capacity for Project Implementation

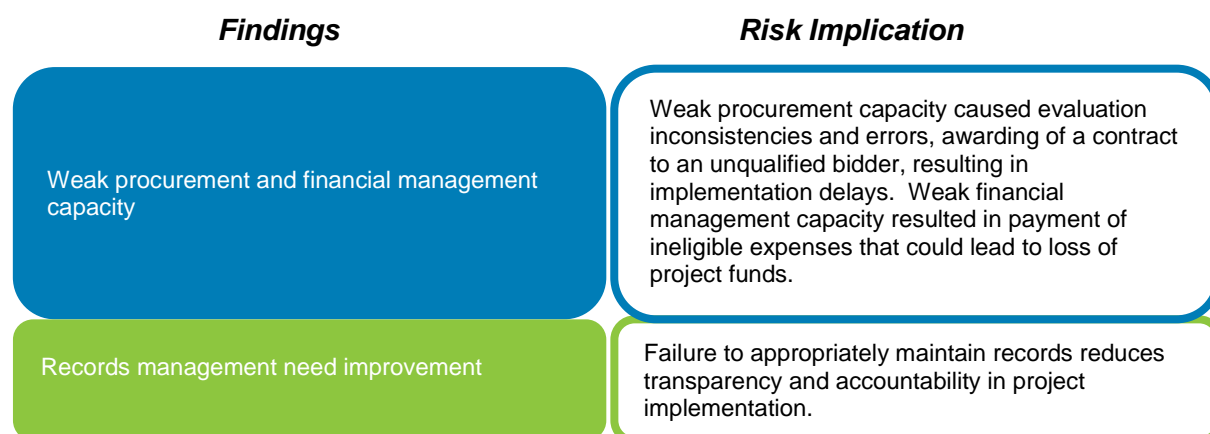
66. The seriousness of the findings indicates that PNRM's and DoW's capacity to implement and oversee the Project, and ensure Project integrity needs immediate strengthening.

67. Clearly, PNRM's weaknesses are manifested in its laxity in (i) reviewing draft bid documents and bid evaluation reports, (ii) issuing PCUS in violation of the PAI, (iii) inadequate understanding of and guidance to DoW on the Project's audit requirements and review thereof, and (iv) monitoring of contract implementation.

⁵⁰ PNRM's Special Administration Mission to the project sites on 12-13 July included meetings with DoW, supervision consultants, and contractor.

⁵¹ Mitigation efforts included: (i) contractor has tripled the deployment of plant and equipment, additional international staff have been engaged to expedite implementation; (ii) a progress recovery plan was approved by the supervision consultant and DoW has been monitoring the contractor's resources and works progress against the recovery plan to ensure timely completion of the contract; (iii) an experienced local sub-contractor was engaged to carry out the required work on the 4 other remaining bridges; and (iv) DoW was engaging 2 national project engineers deployed at the West New Britain site.

68. A summary of gaps in DoW's institutional capacity is highlighted below.



69. **Weak project procurement and financial management capacity.** DoW's and PIU's weak capacity in project implementation and maintaining project integrity is shown in the evaluation irregularities, bid preparation issues, and non-compliance issues. This has resulted in awarding of a contract to an unqualified bidder and compromised fairness and transparency in procurement. The issuance of multiple addenda signifies that decisions on points for consideration in the standard bid documents were not appropriately taken into account during bid preparation. The TEC did not have a member with financial expertise to appropriately evaluate the financial capacity of bidders. The lack of thorough review of substantiation of claims has resulted in payment of ineligible expenses, which could lead to loss of Project funds.

Finding partially addressed

70. DoW indicated that they have now included a financial expert in the TEC for Tranche 3 of the Highlands Region Road Improvement Investment Project – a project also implemented by the same PIU as BRIRAP. The financial expert will also be a TEC member for Packages 3 and 4 for the BRIRAP Program, co-financed by the European Investment Bank.

71. In late 2016, PARD undertook a procurement risk assessment and a financial management assessment of DoW. From these analyses, PARD/PNRM are aware of the identified substantial risks. Future interventions are being designed to strengthen DoW in procurement, financial management, and project administration to address and mitigate these risks.⁵²

72. **Recommendations.** PARD and PNRM should (i) ensure that PNRM strengthens the capacity of its staff handling project implementation and disbursements, specifically in the thorough review of prior review Project documents (including draft bid documents and bid evaluation reports), substantiation of disbursements actions, project audit requirements and review thereof, and project monitoring; and (ii) collaborate with DoW to strengthen the capacity of its procurement team to prepare standard bid documents, and the evaluation committee through procurement review trainings, focusing on bid evaluation. DoW and PIU should ensure that at least one of the members of the TEC possesses financial expertise. DoW and PIU should also strengthen the capacity of its disbursements team to ensure claims are appropriately supported and thoroughly reviewed in terms of eligibility of expenditures.

73. **Records management needs improvement.** The key Project procurement and disbursements documents were not readily available for review as Project records were not

⁵² Based on PARD's response dated 14 March 2017 to the draft PPRR report.

maintained and kept systematically at the PIU.⁵³ This resulted in difficulty and delays in locating Project documents needed for the PPRR, and instances when Project documents were not provided, which reduced transparency and accountability.

74. There were instances when documents provided to the PPRR team were not the final and updated documents that were issued (e.g., BERs, list of shortlisted firms). The PPRR was not able to assess the appropriateness of shortlisting candidates for the Project Implementation Specialist position. Only 4 out of the 25 longlisted candidates' expressions of interest were made available. Except for the consultant's profile from the ADB CMS, the CVs of these 4 candidates were not provided.⁵⁴ Other documents not provided included, among others, supporting documents relating to BOQ items in the interim progress certificates submitted by contractors for payment, including those relating to insurance of civil works contracts.

75. The PIU acknowledged their weakness in filing and maintaining Project records and indicated that they are working towards establishing a good filing system.

Finding addressed

76. PNRM assisted the PIU in engaging additional staff to improve records management. PIU indicated that they have established a user-friendly filing system that tracks all correspondence.

77. Recommendation. The PIU should implement a procedure to monitor movements of Project documents, and ensure that all project-related documents are retained throughout the life of the Project in compliance with the loan agreements.

III. CONCLUDING REMARKS

78. The PPRR indicates serious findings that if not promptly resolved would adversely affect the continuity of Project implementation. The PPRR team recognizes the mitigating efforts of PARD and PNRM in collaboration with DoW to address the critical findings relating to a civil works contract and in ensuring close on-site administration and monitoring of the Project, resulting in increased progress since the PPRR in March 2016. PARD is encouraged to continue to work together with the government to strengthen its commitment in promoting transparency, fairness and accountability in this Project, other existing projects implemented by DoW and future ADB-financed projects in PNG. The key recommendation is that assistance must be provided to DoW and the PIU in the areas of records management, procurement, disbursements, and monitoring of contract implementation.

79. Strong procurement and financial management controls and compliance to relevant guidelines and contract terms mitigate the risk of improper use of project funds, maximize development effectiveness and deter fraud and corruption. DoW should take the lead in strengthening procurement and financial management controls in the transport sector, and collaborate with ADB to strengthen PNG's capacity to manage for development results.

80. Given that serious irregularities were identified, it is imperative that lessons learned from this PPRR are carried forward throughout the life of the Project and future ADB-financed projects in PNG. PARD should ensure that inherent risks are properly managed and project management

⁵³ The PPRR team had to constantly follow-up with the PIU to provide these documents to complete the review within the fieldwork timeframe of 4 weeks.

⁵⁴ The CV of the winning bidder was provided by DoW when they provided comments to the draft report (refer to para. 23 of this report).

is optimized. OAI will liaise with PNRM on the follow-up of the implementation of the PPRR recommendations.

81. The PPRR team appreciates the cooperation and assistance of DoW and PIU during the PPRR, and PARD, specifically PNRM, for their valuable support and inputs to the PPRR. OAI remains available for consultation on any matters in this report or issues that may affect the integrity of project implementation.