

Procurement Irregularities in ADB Projects and Lessons Learned from PPRRs



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Project Procurement-Related Review (PPRR)

To verify
compliance

Review

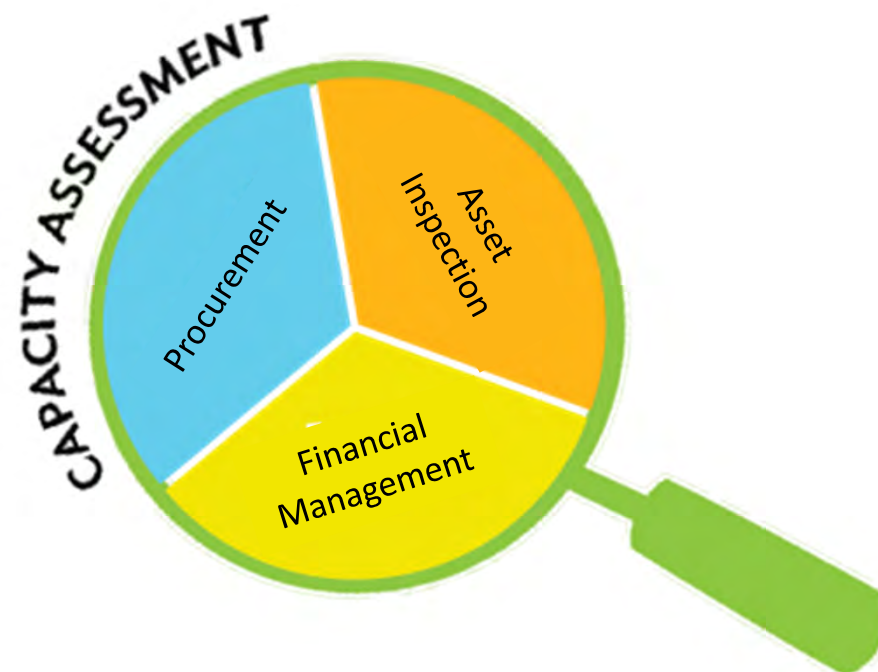
Ongoing
ADB-finance
projects

Focused on preventing and
detecting integrity violations

Assesses internal controls in place,
Identifies irregularities and instances of
noncompliance, Inspects project outputs,
Recommends enhancements

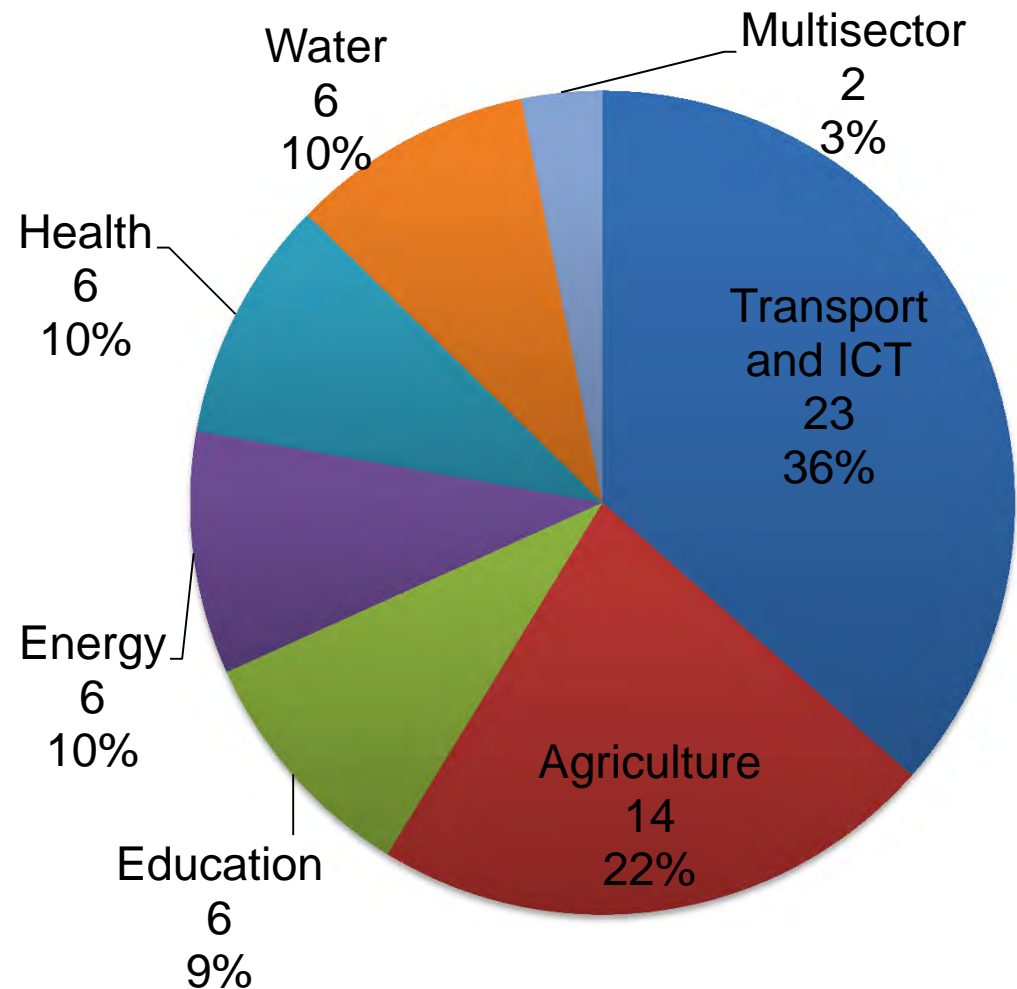
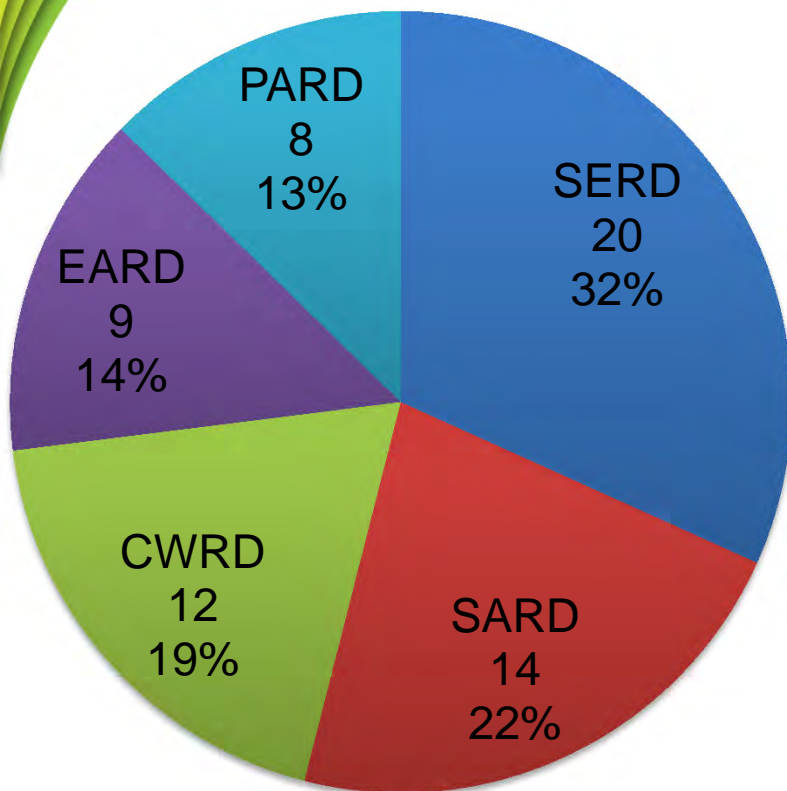
Not an evaluation to assess development
effectiveness of ADB's ADB-funded projects,
Does not review project outcomes or
development impact

Areas Covered by PPRRs

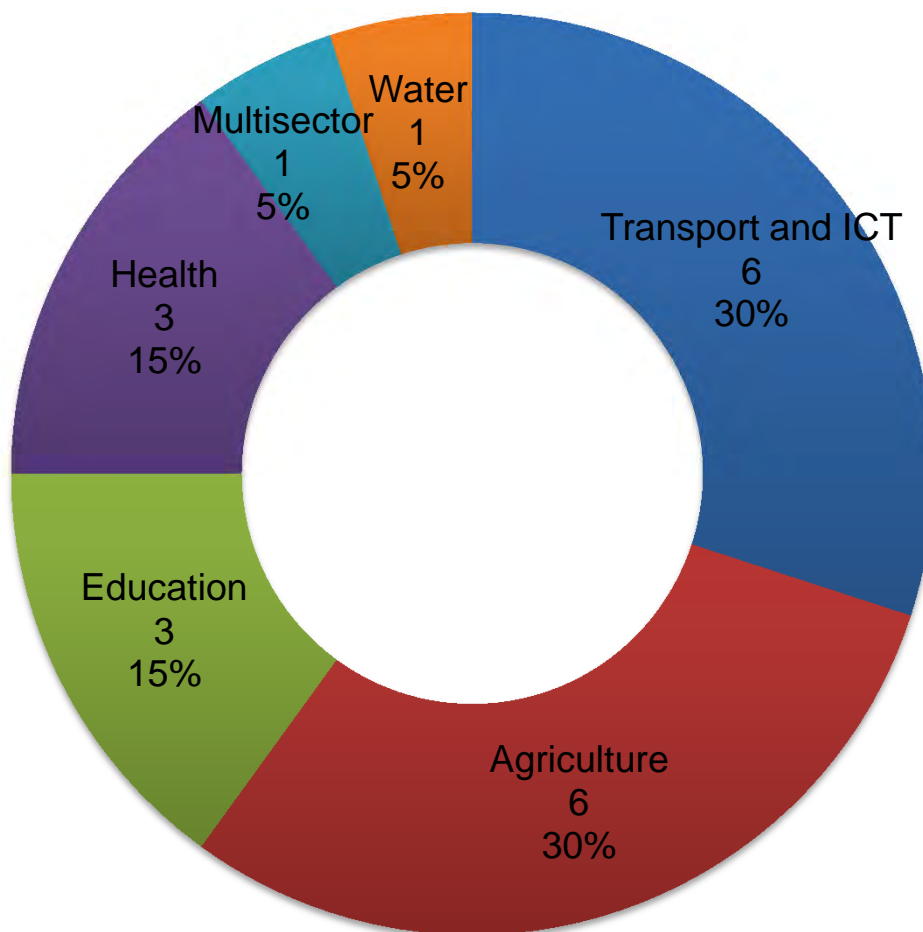
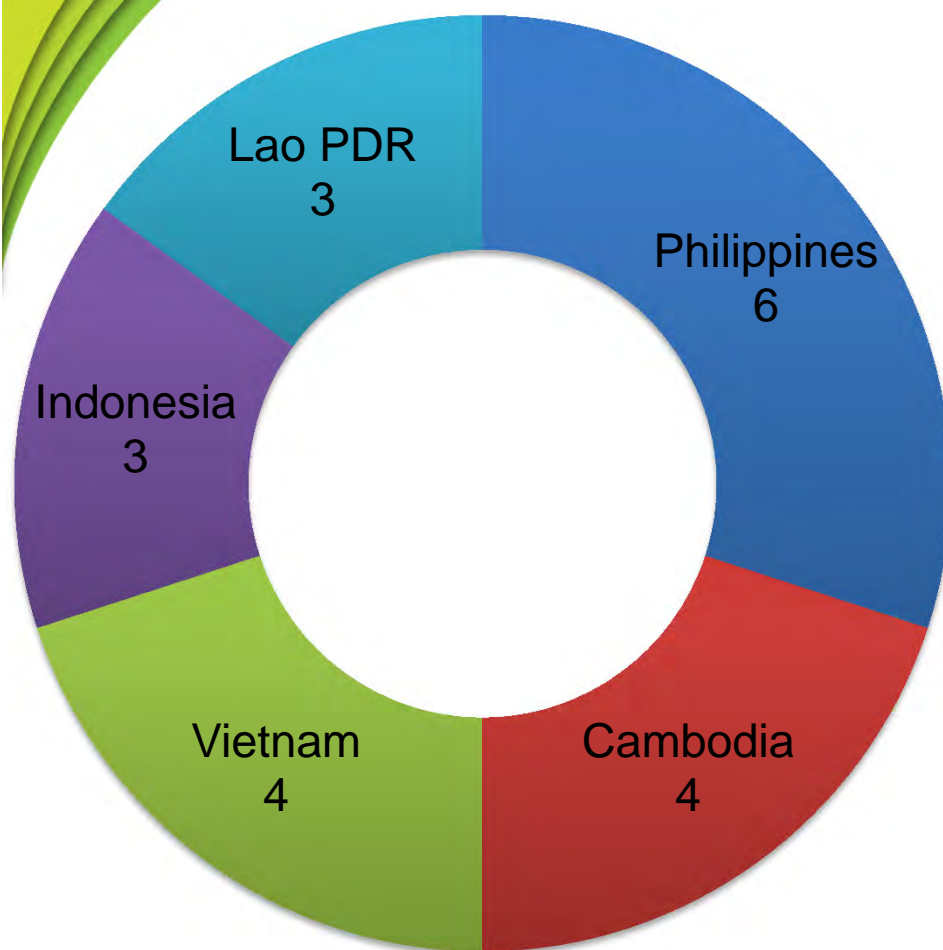


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Since 2003, OAI has conducted 63 PPRRs – 20 of which are in SERD countries



PPRRs in SERD countries

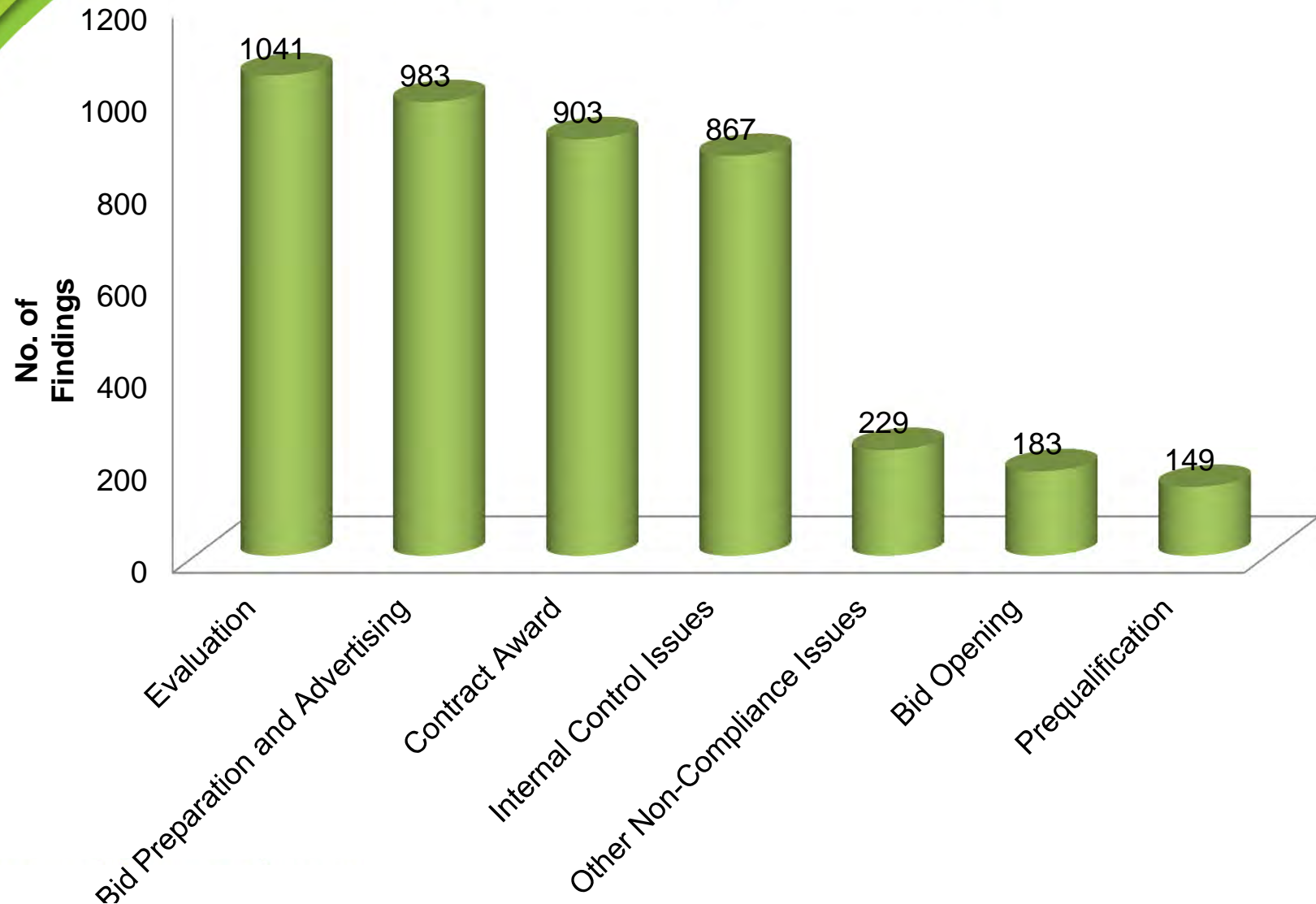


Procurement Irregularities in ADB Projects



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Common Procurement Irregularities & Non-Compliance (Overall)



Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

25. COMMITMENTS AND CONTINGENT LIABILITIES:

(1) The Company has provided 7 blank checks, 20 blank notes and 9 notes amounting to ₩116,804 million as collaterals to and other third parties, and Korea Housing Guarantee Co., Ltd. in connection with its outstanding

(4) As of December 31, 2008, the Company is the defendant in 47 lawsuits involving claims of ₩42,300 million. The outcome of the lawsuits cannot presently be determined.

(3) The Company maintains escrow accounts of ₩114,035 million under its name based on the operation agreements with customers in certain construction contracts. The Company did not record these escrow accounts in its books but maintains as memo accounts reflecting economic substance in which the ownership belongs to these customers.

(4) As of December 31, 2008, the Company is the defendant in 47 lawsuits involving claims of ₩42,300 million. The outcome of the lawsuits cannot presently be determined.

26. FINANCIAL DERIVATIVE INSTRUMENTS:

(1) Forward contract

The Company has entered into forward contracts with financial institutions to hedge against the risk of fluctuation of foreign currency risk. The forward contracts as of December 31, 2008 are as follows (Won in thousands):

Description	Contract amounts	Exchange rate	Fair value
Forward Sell	USD 422,044,000	2006.1.100	₩822,012,000

Notes to Financial Statements

24. COMMITMENTS AND CONTINGENT LIABILITIES:

(1) The Company has provided 7 blank checks, 14 blank notes and 9 notes amounting to ₩101,813 million as collaterals to third parties, and 1 check amounting to ₩2,500 million to Korea Housing Guarantee Co., Ltd. in connection with its outstanding borrowings and other contracts as of December 31, 2007.

(2) The Company has provided the completion guarantees for Samsung Corporation amounting to ₩1,593,039

(4) As of December 31, 2007, the Company is the plaintiff in 33 lawsuits involving claims of ₩44,700 million and is the defendant in 29 lawsuits involving claims of ₩36,400 million. The outcome of the lawsuits cannot presently be determined.

books but maintains as memo accounts reflecting economic substance in which the ownership belongs to these customers.

(4) As of December 31, 2007, the Company is the plaintiff in 33 lawsuits involving claims of ₩44,700 million and is the defendant in 29 lawsuits involving claims of ₩36,400 million. The outcome of the lawsuits cannot presently be determined.

25. FINANCIAL DERIVATIVE INSTRUMENTS:

The Company has entered into forward contracts with financial institutions to hedge against the risk of fluctuation of foreign currency risk. The forward contracts as of December 31, 2007 are as follows:

Description	Contract amounts	Description	Contract amounts
Forward Sell	US \$ 58,299,000	Forward Buy	US \$ 10,798,000
	JPY -		JPY 3,236,070,413
	EUR 19,890,000		EUR -

Forward contracts are stated at fair value and the gain on translation of ₩1,211,879 thousand and loss on translation of ₩2,605,581 thousand is reflected in current operations.

26. SUPPLEMENTARY INFORMATION FOR COMPUTATION OF VALUE ADDED:

The accounts and amounts needed for calculation of value added in 2007 and 2006 are as follows (Won in thousands):

Submitted Financial Statements

Company 1

Financial Situation

Each Applicant or member of a JV must fill in this form

Financial Data for Previous 3 Years [US\$ Equivalent]		
2008	2007	2006

Information from Balance Sheet

Total Assets	770,121	764,713	650,438
Total Liabilities	4,243	4,802	6,460
Net Worth	765,879	759,911	643,978
Current Assets	727,733	696,104	611,861
Current Liabilities	4,243	4,802	6,460
Total Debt	-	-	-
Receivables	-	-	-
Inventories in Hand	228,384	82,627	66,061

Information from income statement

Total Revenues / Sales	1,631,882	2,065,802	2,599,331
Profit Before Taxes	145,261	180,821	244,311
Profit After Taxes	94,420	117,533	145,432
Interest Charges Paid	942	1,393	2,029

Company 2

Financial Situation

Each Applicant or member of a JV must fill in this form

Financial Data for Previous 3 Years [US\$ Equivalent]		
2008	2007	2006

Information from Balance Sheet

Total Assets	770,121	764,713	650,438
Total Liabilities	4,243	4,802	6,460
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Submitted Financial Forms

- For Financial Capacity:
Re-compute, verify, and **document** the following for all bidders:
 - Turnover
 - Net Worth
 - Working Capital

Incorrect Net Worth calculated in FIN 1

Total liabilities also include the amount of Equity capital

Total Assets = Total liabilities as per the FIN-1 Form

Form FIN - 1: Financial Situation

Each Applicant or member of a JV must fill in this form

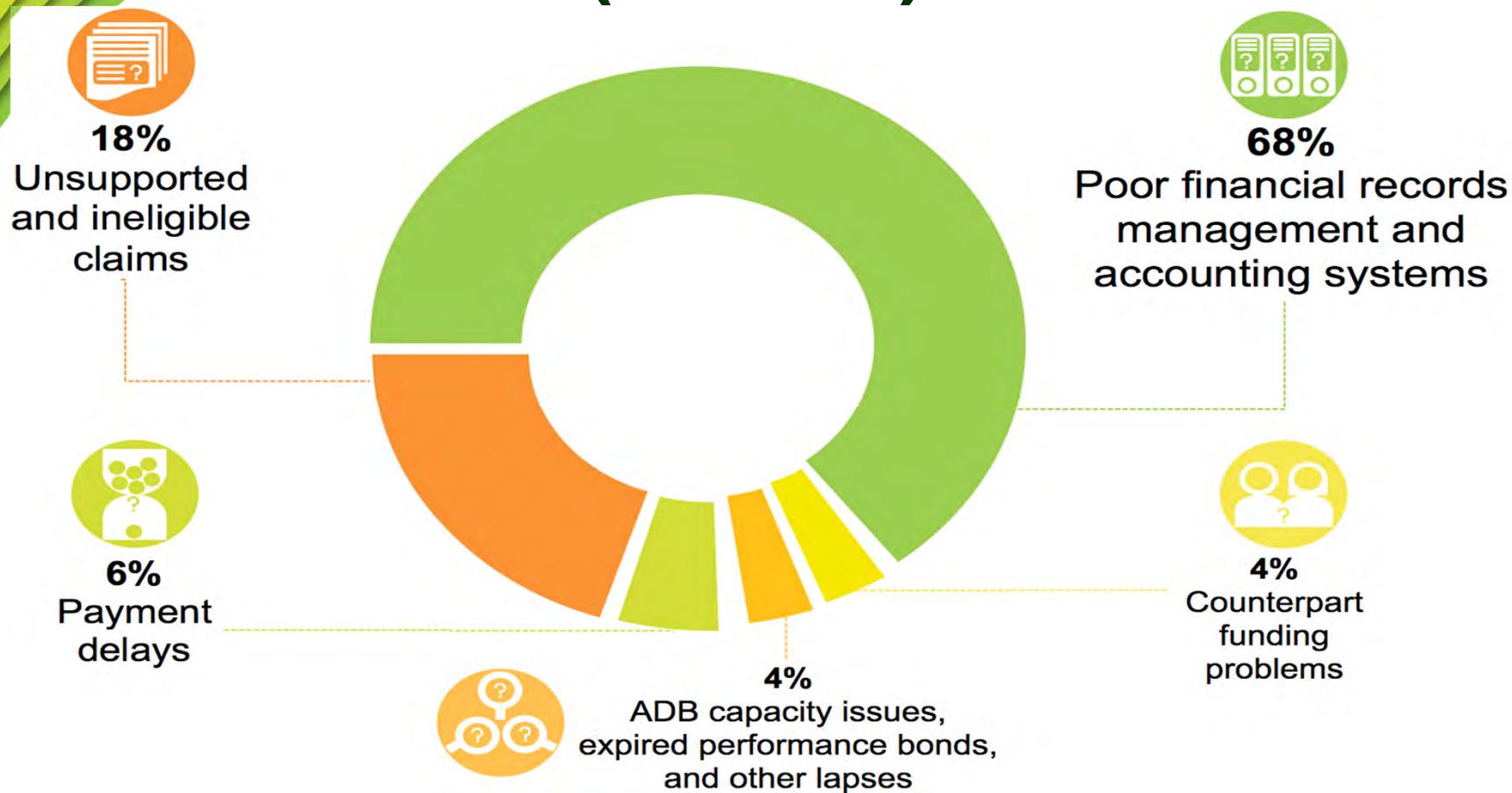
Financial Data for Previous 3 Years [Nu]						
Year 1: (2009) (Nu.)	Year 1:(2009) (US \$ equivalent)	Year 2: (2008)	Year 1: (2008)(US\$ equivalent)	Year 3: (2007)	(2007) (US\$ equivalent)	
Information from Balance Sheet						
Total Assets	123,557,271.23	2,745,717.14	129,091,241.79	2,868,694.26	160,174,599.64	3,559,435.55
Total Liabilities	123,557,271.23	2,745,717.14	129,091,241.79	2,868,694.26	160,174,599.64	3,559,435.55
Net Worth	8,048,686.75	178,859.71	8,048,686.75	178,859.71	8,048,686.75	178,859.71
Current Assets	77781242.19	1,728,472.05	110,818,373.04	2,462,630.51	135,019,609.14	3,000,435.76
Current Liabilities	86066710.80	1,912,593.57	91,659,874.04	2,036,886.09	112,183,077.04	2,492,987.27

Financial Management & Disbursements Irregularities



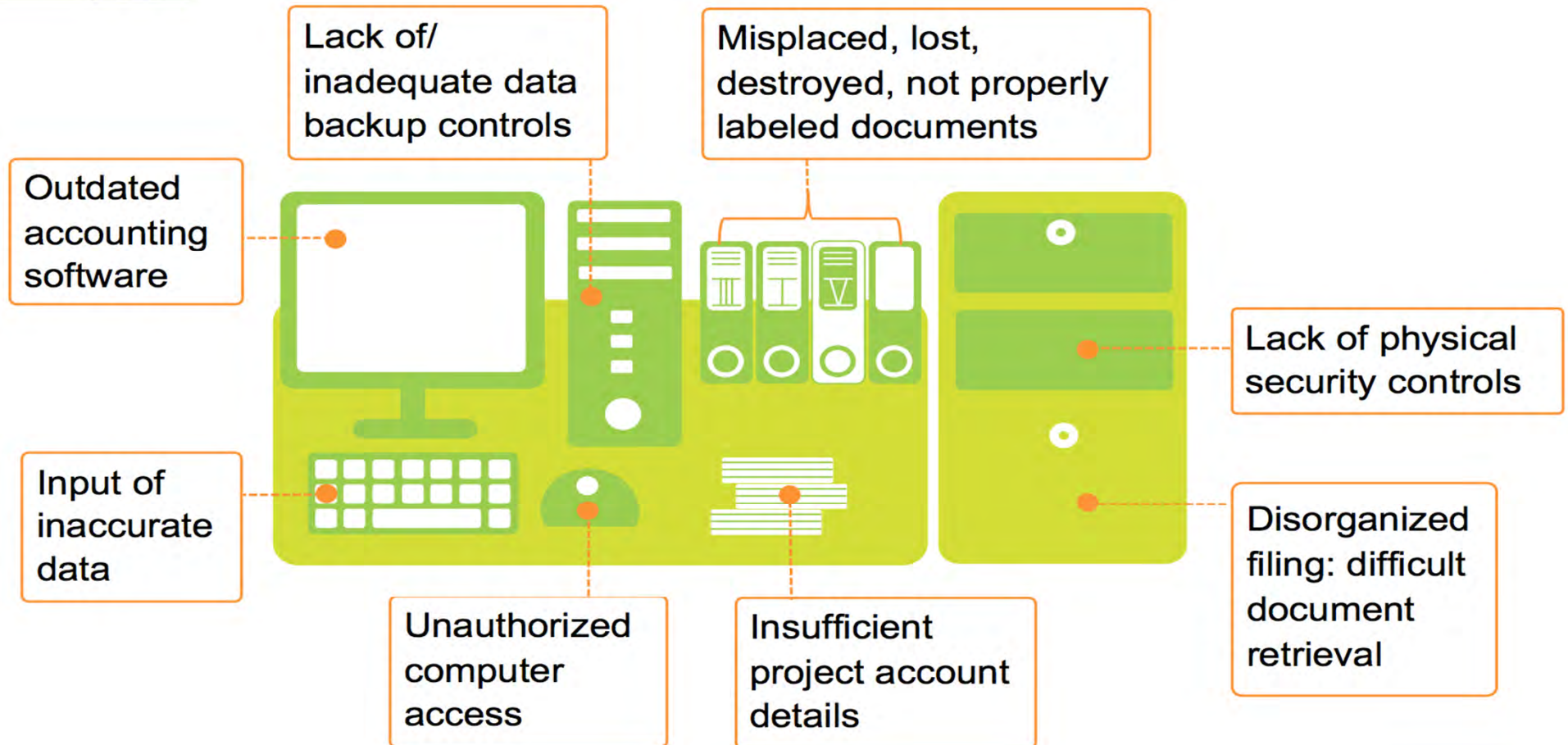
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Common Financial Management Issues (Overall)

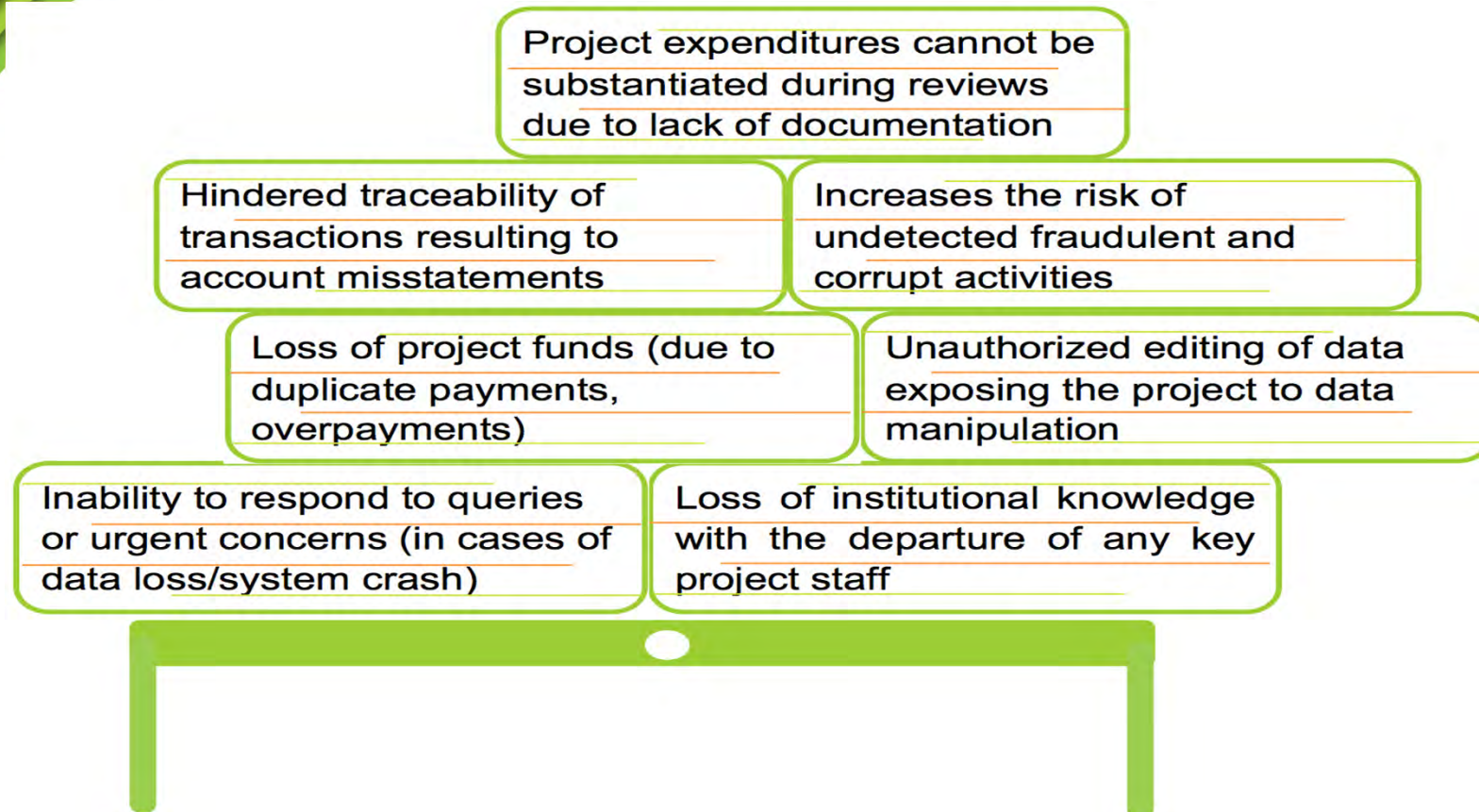


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Poor Financial Records Management and Accounting Systems

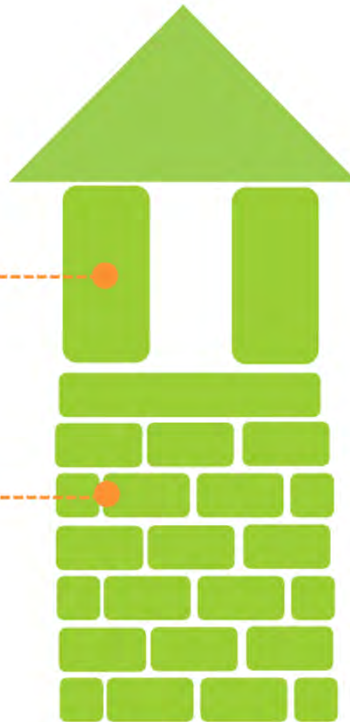


Poor Financial Records Management and Accounting Systems – Impact

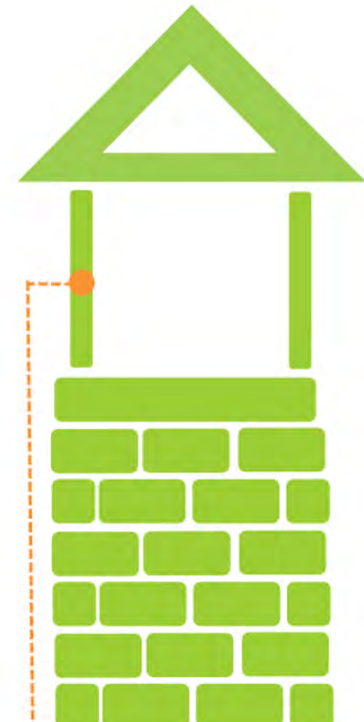


Unsupported and Ineligible Claims

A project expenditure that is eligible and adequately supported is like a structure built on a solid foundation and using good quality materials.

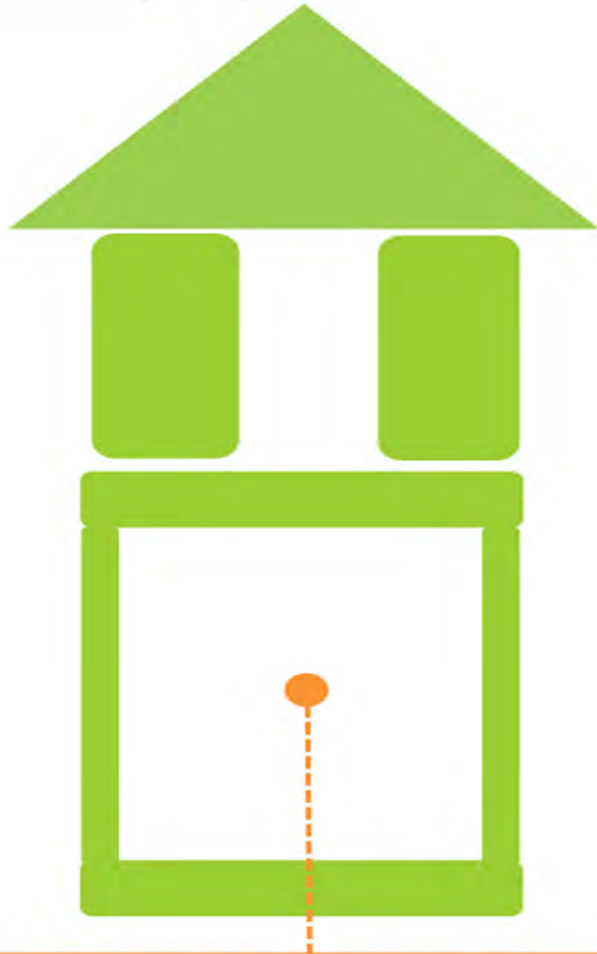


Unsupported claims



Ineligible claims

Unsupported Claims – Examples

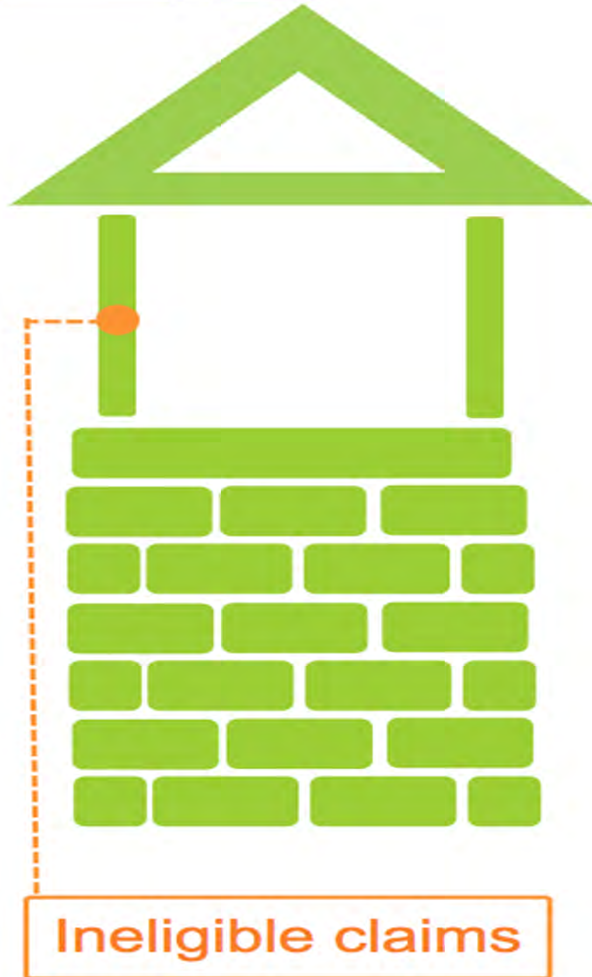


Unsupported claims

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- Invoices paid to contractors without the endorsement of the authorized project staff
- Invoices paid to consultants without supporting timesheets or other time records

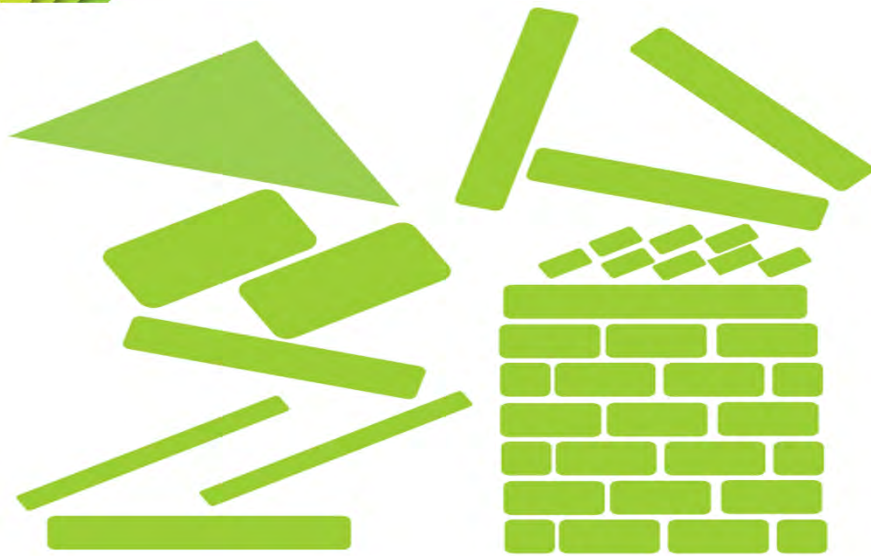
Ineligible Claims – Examples



- Luxurious sales taxes and value-added taxes on procured goods
- Payments made without certification from qualified and/or independent consultants (particularly on civil works contracts)
- Travel costs charged which are not specified in the consultancy contract
- Medical, office cleaning, and food items charged to office engineering supplies
- No differentiation between personal from official telephone calls

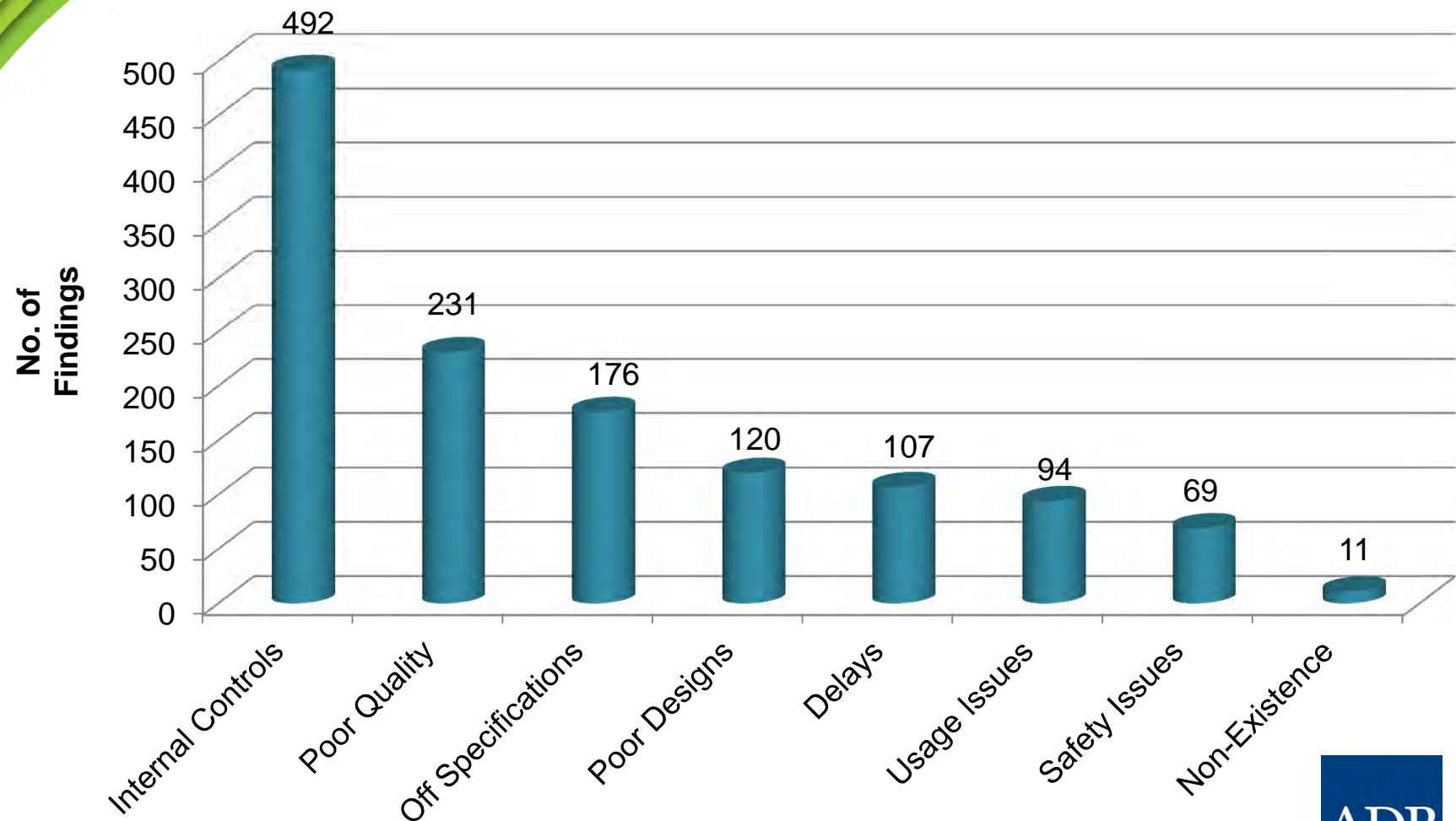
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Unsupported and Ineligible Claims – Impact



- Opportunities for consultants, and suppliers to overcharge projects, and for inappropriate relationships between them and the authorized project staff to exist
- Failure to identify works, goods or services that are considered substandard compared to the contract specifications and the inability to detect false claims

Common Asset Inspection Issues (Overall)



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What if we compromise...

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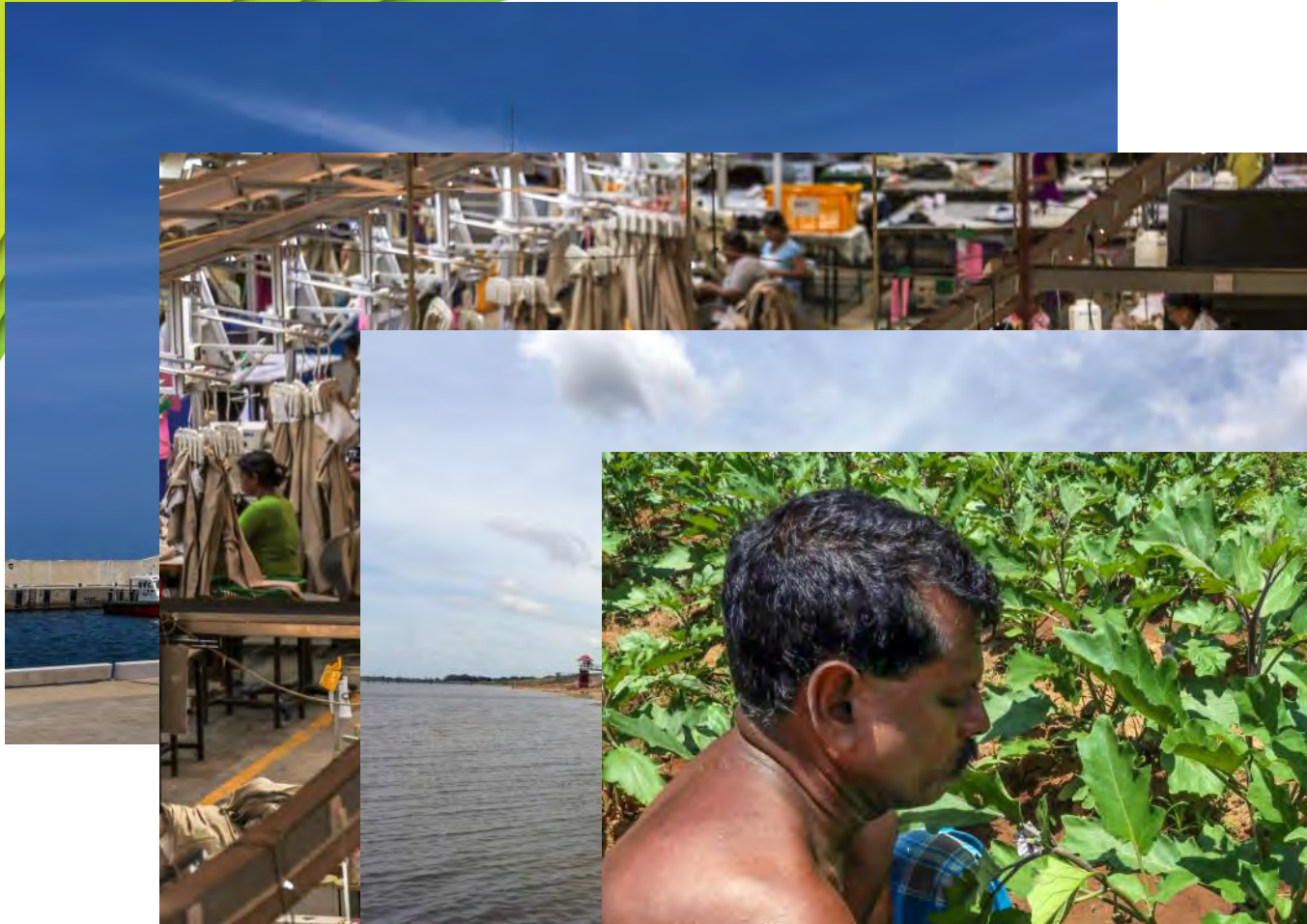
What if we DO NOT compromise...

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Education Projects



Transport Projects



Transport Projects



Water Projects



Energy Projects



Health Projects

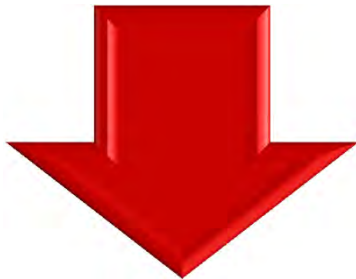


How You can contribute...

- Potentially include in your review: Compliance with ADB's Anticorruption Policy
- Report allegations of integrity violations to OAI (<http://www.adb.org/site/integrity/how-to-report-fraud>)



DO: Report in good faith.



DON'T: Report false or misleading information

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Confidentiality



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Whistleblower and Witness Protection

- A complainant or person reporting allegations of fraud and corruption or misconduct is referred to as a whistleblower.
- OAI will make its best effort to encourage and protect whistleblowers and witnesses



**Help keep the funds
channeled as intended**



Corruption and fraud prevention can...

Strengthen economic development



Contribute to poverty reduction

Increase beneficiaries satisfaction



Decrease implementation delays



Result in improved project effectiveness



Result in improved project efficiency



Save money



Save time





If you have any questions, contact:

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Email: anticorruption@adb.org
integrity@adb.org

Tel: +63-2-632 5004

Fax: +63-2-636 2152

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